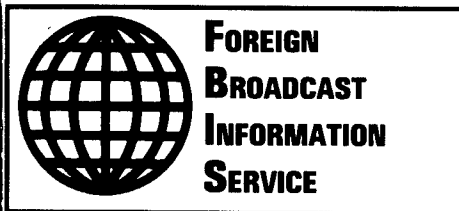


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SOUTHEAST ASIA/PACIFIC

Zhao Notes Importance of Friendly Relations With Philippines

HK190730 Beijing RENMIN RIBAO in Chinese
17 Apr 88 p 1

[Report by Feng Chaoyang [7458 2600 7122] and Jiang Qianhong [5592 0578 4767]: "At Meeting with Corazon Aquino, Zhao Ziyang Stresses That China Will Maintain Lasting Order and Peace and Will Continue To Develop and That China Has the Confidence in Gradually Solving the Problems Arising from Her Advance"]

[Excerpts] Beijing, 16 April—Today, when meeting with Philippine President Corazon Aquino at Zhongnanhai, Zhao Ziyang, General Secretary of the CPC Central Committee, said that the reform and opening policies that China is now pursuing will not change and are irreversible, because they were not adopted accidentally or on impulse.

At the meeting, President C. Aquino expressed thanks for the warm welcome during her visit to China. She said that this is an exciting, significant, and unforgettable visit. General Secretary Zhao said: After Your Excellency took office, Your Excellency paid close attention to the development of relations between China and the Philippines, and adopted many positive measures to develop friendly relations between our two nations. We express appreciation and gratitude for all this. He stressed: China attaches great importance to our friendly and cooperative relations with the Philippines, and we will continue to make efforts to strengthen these relations.

President C. Aquino also briefed General Secretary Zhao on the state of economic development in the Philippines. She said: With the stability of the political situation in the Philippines, foreign investors have been expanding their investments there, and the Philippines is making development step by step. Since the founding of the new government, the Philippine economy has stopped negative growth and has begun to grow. General Secretary Zhao extended congratulations for this.

By the end of the meeting, President C. Aquino hoped that General Secretary Zhao, who visited the Philippines in 1981, will have the opportunity to make another visit to the Philippines to see the changes in this country. General Secretary Zhao said that he also hopes to visit the beautiful country once again if he has the opportunity, and particularly see the achievements made by this nation under the leadership of President C. Aquino.

NEAR EAST/SOUTH ASIA

Proposed Changes in PRC Policy Toward Israel

40050177 Hong Kong CHENG MING

[CONTENDING] in Chinese

No 123, Jan 88; No 125, Mar 88

[Article by Huan Guocang [1360 0948 5547], a student from mainland China studying in the United States: "Report Following Return From a Survey in Israel"; first paragraph is source-supplied introduction]

[Jan 88 pp 72-74]

[Text] Editor's Note: Problems in the Middle East are complex and have attracted worldwide attention. A student from mainland China studying in the United States has written a special article for this publication that clarifies the historical origins and the ins and outs of the Israeli-Arab conflict, providing readers a key to solve the Middle Eastern puzzle. Because of space limitations, this publication can only publish a part of the article in serial form.

Subtle Changes in the Middle East Situation

A series of subtle yet profound changes has taken place in the Middle East political situation during the past year or more. The war between Iraq and Iran is gradually replacing the Arab-Israeli conflict as the center of Middle East political and military conflicts. Islamic fundamentalism is issuing a powerful challenge to the existing social, cultural, and political order of the entire Islamic world. Its fanatical religious fervor and combative political nature are threatening, attacking, and even rocking from within several important Moslem countries and areas that are facing profound social crises, including Egypt, Palestine, Lebanon, Saudi Arabia, Jordan, and Libya. The gradually deepening internal economic, social and political difficulties and crises, and the lack of a consistent policy toward the outside world have intensified conflicts and divisions among Arab countries. The continuation and escalation of the Iraq-Iran war, the internationalization of military conflict in the Persian Gulf, and certain changes in the triangular relationship among the United States, Arab countries, and Israel have provided Moscow with an opportunity to "return" to the Middle Eastern political stage.

At the same time, Washington has also taken new steps, both to mediate Arab-Israeli (and particularly Jordan-Israeli) relations, and to intensify political and military pressures on Tehran. One of Washington's primary strategic goals is to limit Moscow's influence and military presence in the Middle East insofar as possible. However, the effects of the "Irangate Affair," and the forthcoming 1988 general election contest have made it impossible for Washington to pursue a vigorous, clear-cut, and coherent Middle East policy. The split within Israel about convening and participating in an international conference on Middle East peace questions has

made it impossible for the incumbent (Likud Party and Labor Party) coalition government to make up its mind about a basic attitude toward an international conference. This is also a fundamental reason why it has been impossible to score decisive breakthroughs in work leading to an international conference. International political pressure or even military pressure in the Persian Gulf may be able to limit the spread of the "tanker war;" nevertheless, the Khomeni government's strategic goal of routing Iraq and further exporting the "Islamic Revolution" is unalterable. Contrary to the predictions of numerous military analysts, Iran's superiority in population, and thus in the size of its armed forces, as well as its peculiar internal political structure and political atmosphere have imbued it with very strong ability to persevere. Developments in the war situation during the past several months have shown that unless there is direct interference by outside force (meaning mostly the two super powers), Tehran may win greater initiative and dominance strategically within a short period of time. However, except for the Islamic countries (which are primarily divided into two factions, one supporting Iraq and the other supporting Iran), virtually all major powers hope there will be no real winner in this war.

These changes and developments have made and will continue to make the political situation in the Middle East turbulent and complex, and will produce a profound effect on China's current policies in that region.

Issues That the Chinese Communist Leaders Should Consider

1. What is the thrust of the Middle East political situation?
2. How will these trends of development affect China's basic interests in the region?
3. What are China's basic policy choices with regard to Israel?

The foregoing three questions are the fundamental issues to which the writer devoted attention during his visit and survey of Israel in 1987.

The Harry S Truman Peace Institute of Hebrew University in Jerusalem invited the writer to participate as a guest research fellow at the institute for 2 months from late June to late August 1987. The topic for study was the Middle East political situation and Sino-Israeli relations. During his 2 months in Israel, the writer had opportunity to meet with a number of high level government officials including Deputy Prime Minister and concurrent Foreign Minister Shimon Peres, Ministry of Foreign Affairs Director General Avraham Tamir, and the director of the Ministry of Foreign Affairs Center for Political Research, Arie Levin. He also had informal talks with individual research fellows concerned. He had broad contacts with all strata of Israeli society, including young people, students, industrial and business circles, news

circles, soldiers, urban residents, etc. The writer also visited occupied areas on the west bank of the Jordan River, the Gaza Strip, and the Golan Heights. In these areas, the writer visited Palestine refugee camps and Israeli settlement sites, and he exchanged views with some Palestinian scholars and political activists. In addition, the writer also met some American foreign service officers posted to Israel.

The writer used extensive research and interviews as a basis for drafting the report that follows.

The political structure of the international setup in the Middle East today includes the Islamic world, Israel, Turkey, the two super powers, and other countries having a special relationship with the region such as the UK, France, and China, etc. This political structure faces four basic political issues as follows: the Arab-Israeli conflict including the Palestine question, the Iraq-Iran war, the social tumult and changes within Islamic countries including the rise of Islamic fundamentalism, and the rivalry and struggle between the two super powers in the region.

Reexamination of the Founding of Israel

The Arab-Israeli conflict is not just an international political conflict; it is also a cultural, religious, and economic conflict. This conflict has deep historical roots. Simple capsulization of this conflict as interference by and struggle among external powers does not tell the whole story.

Historically, the Palestine-Israel region has been one in which many peoples have lived together. This region was the cradle of Judaism and of Christianity, and historically it has also been a region in which numerous other peoples have congregated. As far as the Jewish people are concerned, the invasion by the Roman Empire 2,000 years ago marked the beginning of their forced departure from Palestine to wander all over the world. By the latter part of the 19th century when Zionism was born and flourished, all the Jewish people were scattered throughout the world. Politically, they had no defined and fairly consistent goals. At least in the Near East and in Europe (particularly in eastern Europe and that part of Europe that is in the USSR today), the Jewish people were always discriminated against and oppressed. To a certain extent, for religious and political reasons, the Jewish people have been direct victims of successive war disasters in the Near East and eastern Europe. The Jews who immigrated to other regions were also victims (anti-Semitism) of local race prejudice and racial conflicts.

Zionism as an active movement began at the beginning of the present century, and particularly during the 1920's. At that time, the movement had two main aspects as follows: The first was the demand made by Jews living in Palestine to the American [as published] colonial authorities for the founding of an independent state; and the second was support for Zionism (including

immigration to Palestine and providing economic support) by Jews living in other areas, particularly the United States and Europe. Nevertheless, up until the rise of Hitler and the outbreak of World War II, the aforementioned movement was not very large, and the number of immigrants was not very large either. The basic policy of the British colonial authorities was to use the religious, cultural, economic, and political contradictions and conflicts among the Jewish people, the Palestine people, and the Arab world to maintain their own rule.

The war that was unleashed following Hitler's rise to power changed the course of history. During World War II, approximately 6 million Jews died in Hitler's concentration camps. While Hitler was oppressing the Jews, the Jewish people discovered they had no place to take refuge. An overwhelming majority of countries refused to accept the Jews who had escaped from Hitler's shadow; and only a few countries accepted a very small portion of the Jewish refugees. No doubt, this tragedy of history strengthened Zionist efforts following the war.

World War II ended in 1945. In 1947, the United Nations passed a resolution to establish Israel. It was only from this time forward that large scale immigration to Israel began. In 1947, there were no more than approximately 800,000 Jews living in Palestine and Israel, and the territory for Israel included in the UN resolution was also very small. Only a very few countries (primarily the USSR and the countries of eastern Europe) recognized Israel from the outset. Historical data show the Truman government's reason for recognizing Israel fairly rapidly was apprehension about the political influence of the USSR on Israel.

Arab World Rejection of the UN Resolution

The entire Arab world refused to accept the UN resolution. One notable example was the Arab countries terming the war between themselves and Israel a "holy war." In 1948, Arab League forces attacked the newly founded state of Israel. None of the western countries (including the United States) supported and assisted Israel. The Arab armed forces had been equipped by Britain and France. Most of the arms of the newly forced Israeli armed forces had been purchased from Czechoslovakia. In terms of both size and armament, the Arab League armed forces were in a position of absolute superiority. Nevertheless, the quality and morale of the Israeli armed forces was far higher than that of the former. The war resulted in a defeat for the Arab League forces and a UN-supported cease fire agreement. In consequence, the actual territory of Israel became larger than the territory in the 1948 UN resolution. The war also created the Palestinian refugee problem.

Internationally, Israel remained completely isolated. Throughout the 1950's, the scale of American assistance to Israel was not large (in particular, there were no very large military assistance projects). At that time, the influence of the American Jewish "lobby" was not

extremely great. In 1965, Washington's aid to Israel was no more than \$3 million. At the same time, contradictions between the Arab countries and the British and French (independence versus colonialism) frequently occupied the center of the Middle East political stage. Israel's relations with Britain and France were not very good by any means. Nevertheless, it used British and French conflicts with the Arab world to protect its own interests. The 1956 Suez Canal war was an example of this. Throughout the 1950's and during the first half of the 1960's, the influence and power of the United States and the Soviet Union had expanded in the Middle East, rapidly supplanting the UK and France. Meanwhile, the United States developed relations with Israel and some pro-western Arab countries (such as Saudi Arabia, Kuwait, Iran, etc). The USSR, on the other hand, had dealings mostly with Egypt, Iraq, and Syria. The main difficulty for Washington lay in balancing the triangular relationship among itself, Israel, and the Arab countries. Moscow's main difficulty lay in how to regulate its relations with the governments of those Arab countries and the radical opposition factions within them. Both Iraq and Egypt repeatedly placed Moscow in an embarrassing position in this regard. The central points at issue in the Middle East at the time were not only the Arab-Israeli conflict, conflicts among Islamic countries, the fight for independence of Middle East countries, and the rivalry between the United States and the USSR, but also included the conflict between the ruling class and other social classes within Middle Eastern countries.

"Six Day War" Changes the Complexion of the Entire Situation

The "Six Day War" of 1967 marked an important military and strategic turning point in the Arab-Israeli conflict. Numerous explanations have been given for the origins of this war; however, the basic fact is that faced with a situation of its troops being outnumbered (several to one), and large enemy forces bearing down on its borders, the Israelis launched a preemptive surprise attack on three fronts against the Arab League armies. At the end of the war, Israel occupied large tracts of Arab territory (the Golan Heights, East Jerusalem, the Sinai Peninsula, the Gaza Strip and the west bank of the Jordan River). This war changed the character of the Arab-Israeli conflict in both a political and a strategic sense. This is to say that the war made some Arab countries realize that given current military and political conditions, destruction of Israel would be extremely difficult if not impossible. For these Arab countries, the goal of military conflict and warfare for the next 6 or 7 years would no longer be the military annihilation of Israel, but rather the use of military methods to bring political pressure against Israel, and the recovery of lost territory through assistance from international society. An implicit premise in this new strategic objective was recognition of the existence of Israel and the establishment of certain kinds of relations with it. This point was revealed extremely clearly in the October 1973 war. From the outset, both Egypt and Syria had set their own

strategic goals as breaking the stalemate, forcing Israel to enter into negotiations through international pressure. On the other hand, Jordan refused to take part in the war. These two wars created mechanisms for international intervention in war and peace in the region.

Nevertheless, 6 or 7 years of warfare had also exacerbated the Palestine question. The occupation of large tracts of Arab territory and the institution of military rule had sharpened the conflict between the Israeli and Arab peoples, and also had saddled Israel with a heavy political burden.

Egyptian-Israeli Peace Treaty Changes Nature of the Conflict

To a certain extent, the Egyptian-Israeli Camp David peace agreement further changed the nature of the conflict between the Arabs and the Israelis. In a political sense, this accord held at least the following significance: First, Israel had the right to exist in the Middle East, and this right had been recognized by certain Arab countries; second, Arab countries could co-exist in peace with Israel; third, individual Arab countries could have completely different attitudes toward Israel (Egypt and Syria, for example); fourth, relations between specific Arab countries and Israel could be regulated without the participation of Moscow; and fifth, under certain conditions, Israel could return occupied Arab territory in exchange for peace. Nevertheless, this agreement could not completely resolve the Arab-Israeli conflict and bring peace to the entire region, even though de facto peace had existed for 20 years between Israel and Jordan, nor had there been any military clashes on the border between Israel and Syria since 1973 (including the 1982 Lebanon war period). There were three basic reasons for this. First, other Arab countries territorially contiguous with Israel did not possess the domestic and international conditions for talking peace with Israel that Egypt had. Second, though the Egyptian-Israeli agreement had mentioned the right of self determination for Palestine, it had not actually dealt with this complex issue, and conditions enabled Egypt to talk peace with Israel without broaching this issue directly. Third, for Israel the return of the Sinai Peninsula was vastly simpler than the return of the Golan Heights, East Jerusalem and the west bank of the Jordan.

PLO Collapse in the Lebanon War

The above three points were demonstrated extremely sharply in the 1982 Lebanon war. During this war, Israel successfully achieved its strategic goal of driving the PLO out of Lebanon. This success was only temporary, however. From 1986 onward, PLO forces gradually began to return to Lebanon. This war created at least two serious problems for Israel. First, the political situation in Lebanon devolved into utter chaos. Even though the Israel-supported Christian Phalange Party held the upper hand for the short term, the Christian population

accounts for between only approximately 25 to 30 percent of Lebanon's total population, far less than the strength needed to rule Lebanon. As a result of the support for other political forces (including military and religious) by various external powers (Iran, Syria, the PLO, Libya, Saudi Arabia, etc), political chaos developed rapidly. Over the long term, this would become a serious security issue for Israel. Second, granting that most Israeli and western public opinion supported the war policies of the Israeli government in 1967 and 1973 (because both wars were for self defense in the eyes of Israel), very great changes had taken place in public opinion in 1982. A substantial number of Israelis believed this war was "unnecessary," or even "aggressive." This has been debated endlessly by all Israeli political parties, and within the armed forces.

Simply stated, the 1982 Lebanon war split Israeli society politically, even though the historical background for this split had long existed (as in different attitudes about the occupied territories, and how to bring about peace with the Arab countries).

[Mar 88 pp 55-59]

[Text] A brief review of the history of the Arab-Israeli conflict tells us the following: First, the Arab-Israeli conflict has international roots as well as internal historical, cultural, and religious roots. Second, Israel's existence as a state is a political reality, and the focus of the Arab-Israeli conflict has developed from whether or not to recognize this political reality to how to conduct dealings with it. Third, Israel's foreign policy has gone through a process of development from seeking survival to outward expansion; however, in both international and domestic terms, the expansionist part of its policy is not absolute and is not immutable. Fourth, the Arab world is not united as one. Under certain conditions, a partial Arab-Israeli peace can be realized. From the Arab countries point of view, religious and internal political factors are the main obstacles. Fifth, there has also been a process of development of the Palestine issue. This was manifested most clearly following the Six Day War of 1976. To a certain extent, total peace between the Arabs and the Israelis cannot be realized without an equitable solution to the Palestine problem, although the relative importance of the Palestine problem in relations between Israel and the Arab countries has declined. Sixth, international intervention has become one mechanism for regulating the Arab-Israel conflict even though such intervention cannot prevent a sudden escalation of the conflict under certain conditions. In a situation in which both the Arabs and the Israelis possess extremely great external dependence and also relative independence, and in which external forces, including the two super powers, have extremely powerful ability to intervene, international intervention has become an important (though naturally not the only important and not necessarily the most important) factor in deciding Middle East political developments. The foregoing six conclusions can help us understand the current status and the future of the Arab-Israeli conflict.

The PLO's Increasing Loss of Direction

Some major changes have taken place in the Palestine problem during the past 3 years. The PLO itself and its relations with Palestinians in occupied areas are facing a new evolutionary stage. The 1962 Lebanon war had the following implications at the very least: First, in purely military terms, the PLO is a long way from being able to threaten Israel's existence or to force the latter to enter into negotiations with it. Second, the PLO's basic strategy and tactics are seriously and fatally flawed. Not only is it unable to gain a base of operations in the occupied areas, but it is also hard put to maintain a foothold in the Arab countries that neighbor Israel. Under these circumstances, its basic political and "military" strategy can only develop in the direction of terrorism. This tendency not only seriously damages its position in international society, but also further weakens its links with the Palestinian people in the occupied areas. Third, the Lebanon war showed clearly the complex attitudes of the Arab countries (including different internal political forces and social groups) toward the PLO and the Palestinian problem. These complex attitudes, in turn, have frequently been unfavorable for the PLO because of the PLO's strategic weaknesses, pressure from Israel and other international forces, and the internal political turmoil and shifting relationships in these countries. Fourth, the Lebanon war also showed once again the PLO's political and military dependence on these Arab countries. This dependence has frequently placed the PLO in an extraordinarily vulnerable position because the former have used the PLO not only to serve their own political interests, but also as a bargaining chip with Israel or other international political forces.

Following the Lebanon war, the splits within the PLO intensified. The fairly recent Algerian Conference (which Moscow orchestrated from behind the scenes to a certain extent) moderated internal conflicts for a time. However, in a situation of failure to overcome political and strategic weaknesses, such a moderation could only be shortlived. Very quickly, differing views about an international conference on peace in the Middle East again intensified the conflicts within the PLO.

Forces Not Unified and Without an Operations Base

At least for the present and for some time to come, the PLO faces the following major difficulties and weaknesses. First, the PLO lacks a leadership nucleus that is able to bring about internal unity, that can establish close ties to the people in the occupied territories, and that understands how to readjust its own strategy and policies whenever necessary as political realities require. Arafat is the current internationally recognized leader; however, his leading position is by no means unchallenged within the PLO. Even more serious is that discussion of the split among factional forces within the PLO usually does not focus on who is qualified to lead the entire movement, but rather on the split in the movement itself. Since various external forces have a very great real

influence on the PLO, factional fights have a very complex international background, and such a complex international background makes it even more difficult to mediate PLO internal conflicts and clashes, thereby weakening the PLO's political leadership.

Second, the PLO has no operating base of its own; in particular, it has no operating base in the occupied territories. Like similar political (and military) organizations in exile, it has been separated from its native land for a long time. This has not only increased the estrangement between the PLO and the society of the occupied territories, but it has also brought about the gradual development of a new strategy and mode of conduct that centers around an emigre political movement. Conversely, this new strategy and mode of conduct increases its estrangement with the occupied territories. This has been one of the primary reasons that many residents of the occupied territories have expressed disappointment with the PLO during the past 2 or 3 years and have striven to develop their own political organization and political leadership within the occupied territories. This trend has become stronger during the past year at least. Should this trend turn into a certain amount of political reality within a period of time, the PLO may face a profound internal and external political crisis.

The PLO Lacks a Flexible Strategy

Third, the PLO lacks a fairly realistic and flexible strategy. Its basic standpoint remains uncompromising armed struggle. In a situation of inferior military strength with no base of operations in the occupied territories, and the need to depend on other international forces militarily, economically and even politically, such a strategy is, without doubt, one of the reasons that has led to military defeat, greater political dependence on others, and a proneness to extreme tactics. Overemphasis on uncompromising armed struggle in the face of a lack of necessary and complete subjective and objective conditions for effectively carrying out such a strategy is clearly an important reason for the PLO's increasing separation from the masses in the occupied territories. At least for the present, the PLO's strategic objectives are muddled. Slogans like "self determination for the Palestinian people" or the "country of Palestine" have no clear meaning, which is to say that within the PLO there is no consensus about the basic goals to be achieved through struggle. The most crucial issue is whether to strive to establish a Palestinian state on the west bank of the Jordan River and in the Gaza strip and live in peace with Israel, or whether to set up a greater Palestinian state that includes most of or all of Israel (the 1948 territory). Related to this issue is a series of other questions, namely, how to handle PLO relations with Jordan, Egypt, and Syria; whether negotiations should be conducted with Israel under certain conditions; how the PLO's standing and influence in international society can be used to realize its strategic goals; how to organize various social forces in the occupied territories, etc.

Moscow's Gradual Distancing of Itself From the PLO

Fourth, the position and influence of the PLO in international society is undergoing changes that will certainly not be favorable to it. Currently, the PLO still enjoys recognition by many third world countries. The USSR and east European countries have also consistently provided it with moral support and economic and military assistance. A majority of the countries of Europe also maintains some political relations with it. Nevertheless, except for some Middle Eastern countries, most third world countries that recognize the PLO have no real influence on political developments in the Middle East, particularly with regard to changing the Arab-Israeli conflict and the Palestine question. Most of the international terrorist activities of the past several years have taken place in Europe. In addition to Libya, South Africa, and Iran, the PLO has also been one of the prime sources of these activities. These activities have greatly damaged the PLO's image among the European public and its relations with Asian and European countries. Naturally, American political pressure on western European countries and conflicts and clashes between the power of the Catholic Church in western Europe and Israel's Jewish religion and culture were also reasons complicating relations between the PLO and western European countries.

USSR and eastern European support for the PLO has by no means been unconditional. Gorbachev has been very restrained with regard to Arafat and his faction. This has been the reason for Moscow's consistent refusal to permit Arafat's formal visit to the USSR. Moscow understands the relationship between the PLO and the Palestinians in the occupied territories. For the past several years, Moscow has quietly developed its relations with the latter, increasing the number of scholarships to Palestinians living in the occupied territories and in other Arab countries, and expanding its training projects for Palestinians. At the same time, Moscow strengthened control over assistance to the PLO while at the same time fostering its own strength among PLO factions. In view of the intricate relationships between the PLO and other Arab countries (particularly Syria and Jordan), Moscow's support and assistance to the PLO has never exceeded what these countries would permit or countenance. This point has been manifested extremely clearly in the triangular relationship among the USSR, Syria, and the PLO. Moscow's attitude toward the PLO has always been influenced by Damascus. Assad told Moscow in so many words on several occasions that he did not desire the PLO to become a basically independent political and military force with support and assistance from Moscow. Of even greater importance, the political and military realities of the Middle Eastern region made Moscow realize that its relations with the PLO were of vastly less importance than its strategic and political cooperation with countries such as Syria.

Following Gorbachev's rise to power, Moscow's policy toward Israel and the entire Middle Eastern region underwent a series of changes. The nub of these changes

has been a recognition of the Middle East's political realities, a change in its own attitude toward Israel, and adoption of a forward leaning and very "constructive" attitude to challenge Washington's fairly rigid position. Moscow has recently increased its private contacts with Israel, and Moscow has informed Israel that it will try its best to "convince" the PLO and Syria to take part in an international conference, and will no longer insist on the PLO's independent representation at the conference. In addition, Moscow has indicated to Israel that it desires to reestablish diplomatic relations with Israel at a "suitable" time.

New Generation in Occupied Territory Dissatisfied With the PLO

Fifth, during the past several years, and particularly since the 1982 Lebanon war, major changes have taken place in the Palestinian social, political, and economic situation in the occupied territories. These changes hold extremely important potential influence for the PLO's political future. Politically speaking, most of the Palestinians in the occupied territories oppose military occupation and the policies of the Israeli authorities. Nevertheless, this political standpoint does not mean that they entirely support PLO policies. At the present time, there is no other visible political force or body that is able to play the role of the PLO on the international stage. In this sense, social forces in the occupied territories have no other choice. However, dissatisfaction on the part of social forces in the occupied territories with the PLO's strategy, policies, and actual performance is growing and expanding rapidly. A new generation of smart and courageous elements are in the process of organizing, and they have begun to talk and negotiate directly with the Israeli authorities, and to bring direct political pressure to bear. In view of the importance of the non-international aspects of the Palestine-Israel conflict, these political developments will not only directly pose a challenge to the PLO's international position, but it is entirely possible that center stage of the Palestine-Israel conflict will be reshifted to within the occupied territories. However, the main form of this conflict and struggle may possibly not be military and armed but rather political and social. Of more importance is that the strategic shift in this struggle and conflict may produce its own new leadership nucleus and political organization. Under these circumstances, unless the PLO is able to change its own basic strategy and policies quickly, it is entirely possible that it will gradually lose its own social foundation in the occupied territories.

Israel and China as Friends in Adversity

Israel was one of the earliest small number of countries that recognized the People's Republic of China. During the early 1950's, Zhou Enlai termed Israel and China two isolated countries. Zhou Enlai had hoped to establish diplomatic relations with Israel at that time, and diplomatic envoys of both sides met for this purpose. At that

time at least, China did not regard Zionism as being "reactionary." On the contrary, China expressed heartfelt sympathy for the suffering of the Jewish people during World War II.

Because of historical conditions at the time, Israel decided under pressure from the United States not to establish relations with China. In early 1955, Beijing began, from a position of extreme isolation, to establish diplomatic relations with the Arab countries of Egypt and Iraq. In the UN, Israel followed U.S. policy, always voting against Beijing's admission to the UN. Many Israeli statesmen and academicians feel that holding to its word during this historical period was "one of Israel's greatest foreign policy mistakes." The writer met numerous important government officials who expressed the same sentiments. Nevertheless, Israel never recognized Taiwan.

Beijing Regarded Israel With Hostility During the 1950's

From the 1950's onward, Beijing consistently gave full support to the PLO and the Arab countries, and regarded Israel and South Africa as being two of a kind. At the beginning of the thaw in Sino-American relations in 1971, Israel consistently tried to improve relations with China, but with very little effect. Beijing persevered in not developing relations of any kind with Israel. China's Middle East policy was, to a certain extent, really "more Arab than the Arabs" inasmuch as numerous Arab countries were dealing secretly with Israel. In addition, Beijing's Middle East policy was also obstructed by its policy toward the USSR.

The Camp David agreement was a turning point. Unlike Moscow, Beijing held a realistic attitude of welcoming the Camp David agreement. What did the Camp David agreement mean? It meant the following: First, the existence of Israel (so-called Zionism) was a political reality. Second, a peaceful solution to the Arab-Israeli conflict was possible and realistic. Third, Arab world policies for dealing with Israel were not (and might never be) unanimous. Thereafter, Beijing's relations with Israel became more flexible.

Secret Chinese-Israeli Contacts During the Early 1980's

During the early 1980's, China and Israel began to establish unpublicized trade relations. Most bilateral trade and technical transfers went through third countries. Nevertheless, since quite a few Israelis held dual nationality, they were able to use passports from other countries to go to China on business. Academic exchanges were also carried out through other channels for the most part. Beginning in 1985, China permitted Israeli tourists to join tourist groups organized by other countries for travel in China. Israeli scholars going to China to take part in international academic conferences could generally obtain visas. As a rule, Chinese citizens were not permitted to visit Israel, only an extremely

small number of correspondents and trade delegations being excepted. However, their visits were also usually secret, and their stays very short. This situation prevailed until the summer of 1987 when a change occurred.

Israel had consistently tried to open the door to China. During the previous several years, the Israeli government had constantly charged a number of internationally influential persons to "intercede" with the Chinese leaders. At the end of 1986, Israel invited several groups of Chinese journalists, students studying abroad, and visiting scholars to visit Israel. At the same time, the Chinese Ministry of Public Security issued notification that Chinese citizens could visit Israel "via third countries." In 1987, diplomatic personnel from both sides had numerous contacts in Paris, Washington, and New York. During the summer of 1987, an Israeli Communist Party delegation visited Beijing and met Deng Xiaoping. Not long ago during the General Assembly session, Israeli Foreign Minister Peres met Chinese Foreign Minister Wu Xueqian [0702 1331 6197].

Israeli Hopes for Establishing Direct Relations With China

From Israel's standpoint, the establishment of diplomatic relations with China is important. Jewish civilization and Chinese civilization are similar in many ways, and Chinese civilization holds an extremely powerful attraction for Israelis. For a country with a population of no more than between 3 and 4 million, it is surprising that there are a few score "Sinologists" of some attainments. The Han language and China studies are also rather popular in universities. During his 2 month visit to Israel, the writer visited quite a few universities and research units, and had contact with numerous ordinary people. To use an Israeli expression, on hearing the word "China," people's eyes get big. Nor have the Israelis forgotten that China was one of a small number of countries that accepted Jews who suffered oppression at the hands of Hitler during World War II. In short, Israelis are extremely friendly toward China.

Politically, the establishment of relations with China would strengthen Israel's political position. China is one of the five permanent members of the Security Council where the Arab-Israeli conflict is a regular topic for discussion. Of even greater importance, the establishment of relations with China would make it easier for Israel to have contacts with Arab countries (including the PLO), thereby gradually changing its isolation from international society. The establishment of relations between China and Israel could also promote development of relations between the USSR and Israel.

Economically, Israel hopes to open markets in China and to transfer technology to China. At the same time, it is also able to buy some merchandise from China. To a certain extent, the present indirect trade limits the normal development of trade by both sides, so Israel hopes to establish direct trade relations with China.

Additionally, Israel hopes to develop academic and cultural exchanges with China. The two major Israeli political parties fight extremely fiercely about ownership issues, but on the China issue, there is no difference of views.

China's Interests in the Israeli Question

What is China's national interest with regard to the Israel question? The writer feels the following several points to be important.

First, China is one of the permanent members of the Security Council. Though China's actual influence on the overall Middle Eastern political situation is not great at the present time; nevertheless, should China be able to play a constructive role in promoting the Middle East peace process (referring to the Arab-Israeli conflict), this would doubtlessly strengthen China's international standing.

Second, China has shouldered the political obligation of supporting the return of the Palestinians to their homeland; however, this should not be construed as meaning that China must support the PLO's every policy and action, particularly when these policies and actions are constantly changing, and when a substantial portion of them are not consistent with China's national interests, and particularly when they run counter to the tide of world events. Briefly stated, China's policies should be based on promotion of reconciliation between the Israeli and Arab peoples (including the Palestinians), rather than simply support for the PLO.

China's Policy Toward Israel Should Be Independent

Third, China should seek an improvement in its relations with Israel and establish diplomatic relations with it at the proper time. Politically, this would help strengthen China's international position as a great power (naturally, the establishment of diplomatic relations with Israel would not mean support for its policies. Probably this point need not be elaborated further). China's policy toward Israel should be independent, and should not be limited by the PLO or several Arab countries, much less so when the Arab countries themselves are also constantly improving their relations with Israel. In view of the influence of Israel (particularly the Israeli "lobby" and pro-Jewish people) in the United States, establishment of diplomatic relations with Israel (if done in the proper way) could strengthen China's position in U.S. foreign policy.

Fourth, Israel is a country that has been rather successful since World War II at large scale modern warfare (tanks and aircraft), and at opposing Soviet-made weapons. Its skill and actual combat experience in this regard (including strategy, tactics, and training) might be applied to China's armed forces. These skills and experiences in actual warfare would be useful to China in a

future war against aggression. Establishment of diplomatic relations with Israel could rapidly expand exchanges between the two armed forces and be beneficial for the building of China internationally.

Fifth, Israel could provide China with advanced technology. Most Israeli technology is not subject to COCOM restrictions. So long as both parties coordinate properly, China can benefit from economic and technical cooperation with Israel.

Sixth, the development of cultural and educational exchange with Israel could rapidly train for China a group of experts who truly understand Middle Eastern affairs.

China's Policy Choices With Regard to Israel

At the present time, China has the following several basic policy choices with regard to Israel. First, China can continue the present slow process of developing relations with Israel. The advantage of this policy is safety in that it will not arouse a strong reaction from the Islamic world. In the course of this slow process, China can gradually train its own experts on Middle Eastern affairs. However, the price of this policy is high; it can make China lose three important opportunities. During the first half of 1989, conditions may favor the convening of an international conference on peace in the Middle East. Unless China and Israel have diplomatic relations, China may not be able to take part in this conference and bring its own influence to bear. If this process is drawn out for too long, China may end up establishing relations with Israel after the USSR. Naturally, this would not help China's image of carrying out an independent Middle Eastern policy. Worse yet, the extent of Soviet involvement in the Middle East would be much deeper than China's; the difficult problem of the emigration of Soviet Jews still exists between the USSR and Israel. The Middle East situation is ever changing. If this process is too slow, the Arab-Israeli conflict may become more intense, making it difficult for China to establish diplomatic relations with Israel.

Second, China can establish relations with Israel at once. The advantage of this policy is that relations between China and Israel would develop rapidly all of a sudden, and would promote Sino-American relations because the Israeli public and government would welcome most enthusiastically the establishment of relations between China and Israel. However, this policy would face three problems as follows: International society would feel it came about too suddenly; China still lacks a complete and profound understanding of affairs in Israel and the entire Middle East; and an overly rapid policy change might discomfit those responsible for carrying out China's policies.

China's Establishment of Relations With Israel Should Not Be Later Than the USSR

Third, China might take as its goal the establishment of diplomatic relations with Israel before the convening of an international Middle East peace conference, and actively carry out the necessary preparatory work. Chinese officials can meet regularly with Israeli officials for an exchange of views. Some of the presently unpublicized cooperative economic relations might gradually be made public. The two countries could exchange journalists, students, and scholars at once. The citizens of both countries could travel on their own country's passport. China should actively participate in relevant academic activities relating to Middle East questions and rapidly train up its own experts in Middle Eastern affairs. Through such a process (lasting for approximately 1/2 to 1 year), China could establish relations with Israel. This policy could create a transitional phase that would enable international society and Chinese policy formulators to prepare themselves psychologically and politically. At the same time, when this policy is chosen, flexibility and room for maneuver should be maintained on the issue of establishing relations with Israel, yet the overall principle should be not to delay for too long, particularly not to be later than the USSR, and not to be too close to the date when the international conference is convened during the first half of 1989. Actually, China should not be too worried about the possibility of a reaction from the Arab states for the following very simple reasons: There is no direct clash of interests between China and Israel; relations between China and Israel are consistent with the interests of the Chinese people; and China has to have its own independent and sovereign Middle East policies (including a policy toward Israel). The Arab world itself is splintered. Numerous Arab countries have improved, or are in process of improving, relations with Israel, and the establishment of relations between China and Israel helps China gain a complete understanding of the Arab-Israeli conflict and genuinely play a role in that region. China is an economically and politically independent and sovereign country and is not dependent, like some countries, on Middle East petroleum or economic assistance from petroleum exporting countries. Consequently, China should not worry about Arab countries' reaction to the establishment of relations between China and Israel as do countries that are economically or resource dependent on the Middle East. At the present time, at least Egypt, Jordan, the United Arab Emirates, and Lebanon will not oppose the establishment of relations between China and Israel. Syria, Libya, Iraq and Kuwait may complain. However, when some eastern European countries established formal cultural and economic relations with Israel not long ago, there was no great reaction from the countries of the Middle East. One year ago when Greece was considering the establishment of diplomatic relations with Israel, its greatest concern was also the reaction of the Arab world. But when the two countries actually established relations, there was virtually no reaction from the Arab world, because

Greece is not dependent on the Arab world, because the Arab world itself is undergoing change, and because the final conclusion of the Greek government was that it should handle its own external affairs independently and at its own initiative.

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EAST EUROPE

Political Structural Reforms in Four East European Nations

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[Article by Du Defeng [2629 1795 1496] and Gu Qiyong [0657 0796 3057]: "Some Methods in the Political Structural Reforms of Four East European Nations"]

[Text] Since the 1980's, in order to carry out in-depth economic structural reforms, Hungary, Poland, Bulgaria, and Czechoslovakia have accelerated their political structural reforms. The main task of the political structural reforms is to overcome such malpractices as substitution of party for government, overcentralization of power, democracy as mere formality, overstaffed organizations, serious bureaucracy, and inefficiency. Its key is to find a correct solution to the problem of dividing labor and power between the party and the state, between the party and enterprises, and between the party and mass organizations to seek a new form of democracy under the new situation; and further increase the work efficiency of political leadership and the managerial level of the nation as a whole so as to bring into full play the innovative spirit and the enthusiasm of the broad masses of cadres and people for socialist construction, to adapt political structure to the new situation of economic developments, and to assure the implementation of "strategies for faster economic developments." The following is a brief account of some ideas, rules, and methods adopted by Hungary, Bulgaria, Poland, and Czechoslovakia in political structural reforms:

The Main Content and Methods of Political Structural Reforms

Since the problems in the political structures of Hungary, Bulgaria, Poland, and Czechoslovakia are identical, the main contents of their political structural reforms are basically the same. However, their concrete methods are different due to the differences in their national conditions.

1. Implementing the division of labor between the party and government to enable the party to exercise a higher level of leadership and better overcome the malpractice of substituting the party for government

Before the political structural reforms, the Communist and United Workers' Parties of East European nations took on many things which should not be done by them. They exercised all the organizational and economic functions, cultural and educational functions, labor and consumption regulation functions, and law enforcement functions of state organs. They replaced governments by directly exercising the administrative, legislative, judicial, and supervisory functions of the states. As a result, both the parties and governments simultaneously studied the same issues and made the same decisions, thereby restricting the initiative, enthusiasm, and creativity of state and government organs and those of the broad masses of cadres. In view of this, Hungary, Poland, Bulgaria, and Czechoslovakia have all attached great importance to the malpractice of mixing party and government functions and clearly divided work between the party and the government.

A. Stipulating in explicit terms the leading functions of the party in party program and constitution. The Hungarian and Bulgarian Communist parties clearly stipulated long time ago in their party programs and constitutions that party leadership refers to political and ideological leadership and that a clear line of demarcation should be drawn between the functions of political leadership of the party and the functions of social management of other organs. The United Workers' Party of Poland pointed out in the party program adopted at the 10th Party Congress, which was held in 1986, that the essence of party leadership in political structure is to "set programmatic goals for the class of socialist countries in the interests of the working people and organize society to strive for the resolute implementation of these goals." The leading function of the party should be exercised in accordance with the principle of democracy. The party should by no means replace state organs. Instead, it should respect the position and authority of state organs.

B. Defining in explicit terms the functions and powers of party and government organs. Hungary, Bulgaria, and Czechoslovakia clearly stipulated that the concrete rules and regulations for the implementation of major national policies and principles and other administrative measures should be meted out and enforced by government (the Council of Ministers) and other relevant administrative departments. The task of party organizations at all levels is to ensure the fulfillment of plans and tasks assigned to their individual departments and help administrative leaders do a better job. However they should not interfere with, still less replace, administrative leaders. They also criticized practices that made party organizations the "great housekeeper" of society and allowed party organs to unduly "take over" the tasks of state and economic departments. To change the situation of overcentralized power, the Central Committee of the Hungarian Socialist Workers Party reiterated

in 1986 that party leadership is to offer service and guidance, not to control and give orders. In March 1986, the Political Bureau of the HSWP decided to implement the rational division of labor among the party, government, and the masses within the political structure and divided powers between central and local organs. By enacting some laws, the bureau also established relevant systems to define the competence of authorities and responsibilities for various political organs to ensure that all non-party organs are allowed to exercise their functions and powers. The HSWP Central Committee also clearly stipulated that the first in command in a party organization at any level must not be allowed to be the first in command in an administrative organ at the same level, that the secretary of an enterprise and the chairman of a union must not join the management committee of the enterprise, and that plant directors must not concurrently hold positions in local party or government organs. At the 17th Party Congress, the Czechoslovak Communist Party emphasized the need to open up a vast world for non-party organs and institutions to carry out their activities and further overcome practices that confuse the political leadership of the party with the concrete leadership of state and economic departments. For this, the Czechoslovak Communist Party made the following regulations concerning the leadership issue of people's committees at all levels: The party's leading functions should be guaranteed and carried out through leading cadres with party membership in people's committees (local people's committees refer to local governments), through the leading party groups of the people's assembly and through grassroots party organizations in people's committees; as far as ensuring comprehensive regional development is concerned, efforts must be made to expand the functions and powers of people's committees, increase their relative independence, and perfect and clearly define the functions and responsibilities of people's committees and regional party organizations; and party organs or individuals are not allowed to directly intervene in the work of people's committees. During a speech in 1986, Jaruzelski, the secretary general of the Polish Communist Party summarized the party's leading functions into three phrases: 1) lead the state; 2) guide the society; and 3) serve the people. He pointed out that the party should play a "strategic, inspiring, and supervisory" role in economic work and that party organizations at all levels should not intervene in any matter that is under the jurisdiction of state and administrative organs or enterprise and economic departments.

2. Bringing into play socialist democracy and strengthen self-management by the people

Hungary, Poland, Bulgaria, and Czechoslovakia believe that expanding socialist democracy and practicing people's self-management is the major step toward developing the political structure of socialist countries and a basic content of political structural reform.

A. Gradually expanding direct democracy in a variety of forms:

Nationwide discussion. Reform plans and policy measures, except for major laws, are submitted for nationwide discussion. For instance, the draft of the speech delivered by Jaruzelski at the United Nations General Assembly in 1985 and the plan for one time-price increase of retail foodstuff in 1985 were subjected to nationwide discussion and revision. Major reform measures of Bulgaria and issues concerning the socialist reform of agriculture, the rate of socialist construction, and the reform of economic management system in Hungary were submitted for nation-wide discussion, and necessary changes were made according to opinions solicited from the masses.

Social consultation. The contents of consultation usually concern major social issues. The Party Program of the United Workers' Party of Poland put special emphasis on the importance of consultation, stating that the party maintains that government organs at all levels must carry out consultations before they make any decision. In the report of the 10th Polish Party Congress, Jaruzelski further clarified that current political consultation has a new meaning. He stressed that in the past "consultation was mainly political, but now the most important is to carry out social consultation—namely on economic coordination activities and how to do a better job, improve management and bring about order in the big family of the nation as a whole." Poland is planning to establish a consultative committee in the national council with the active participation of the National Committee of the Patriotic Movement for National Rebirth. The consultative committee will absorb representative personages from all fields including Catholic churches.

Establishing a consultative committee, which is a regular form of public life in Poland. For instance, the premier's consultative committee established in 1986 consists of social celebrities. Among its 56 members are former solidarity union activists, former members of the Roman Catholic Assembly, college professors, and economists. When they meet, they can speak their minds freely and state their views on political issues which will then be compiled into reference books to be circulated among departments concerned.

Establishing advisory organ and "consulting conference" to absorb representatives from all social strata and expand the right and scope for citizen's involvement in state management. Poland has now established advisory conferences, committees, and groups with the participation of representatives from all social strata. The resolution adopted at the 10th Polish Party Congress emphasizes that in order to strengthen the ties between the party and society, especially the working class, heed the voice and opinions of the working people, and discuss the party's plans with the masses of people, it has

decided to set up social consultative representatives conference under the State Council and corresponding organs under people's assemblies at all levels.

Expanding the scope of direct election. Members of people's committees and assemblies at all levels in Hungary, Czechoslovakia, and Bulgaria are all elected directly by voters. In the election of the Polish National Assembly, only 50 of its 460 members were elected through national nomination, the remaining 410, like local people's assemblymen, were elected directly by voters. Since 1985, Bulgarian mayors have also been elected directly by voters. Some enterprise managers and plant and factory directors in these countries are now directly elected by workers on a regular or trial basis. At present, leaders at about three-quarters of Hungarian enterprises are elected by staff and workers or recruited through public examinations or channels. In addition, these countries have increased the replacement rate of assemblymen. For instance, in the 1983 Bulgarian assembly election, the replacement rate of delegates to the assembly was 44.8 percent. The Hungarian Socialist Workers Party stipulated that every 5 years at least one-third of members of the party central committee and party committees at all levels should be replaced and that non-party personages should be allowed to hold any position except for party posts.

B. Give play to the supervisory role of the masses and society. Hungary, Bulgaria, and Poland have special laws and regulations in this regard. The "People's Surveillance Law" of Hungary stipulates that specialists and the masses should make coordinated efforts to investigate and expose law violations in society and investigate and supervise major economic work. There are hundreds of thousands of voluntary supervisors, and nearly one thousand price investigations are carried out each year in this country. The "Detailed Rules and Regulations for the Organization and Work of Mass Surveillance Committees and Groups" stipulates that efforts should be made to establish mass surveillance committees or groups in various government organs, schools, scientific research units, enterprises, and urban and rural residents' units to supervise the law enforcement situation of various units, handle complaints from all fields, and report and expose illegal activities. Mass surveillance committees and groups are formed by representatives of various social organizations and residents' groups. Poland has industrial and agricultural surveillance committees consisting of the best workers and peasants chosen by party organizations. Their main task is to supervise and investigate activities that have encroached upon consumers' interests in the daily life of residents. Poland has also adopted a series of regulations on strengthening the people's supervision to strengthen the supervision of leaders in the party's electoral and executive organs and ensure the correct implementation of various policies and plans drawn on the basis of democracy. Czechoslovakia also has similar regulations on supervision.

C. Establish self-management organizations. Bulgaria began in January 1987 to practice all-around self management in industrial and agricultural economic organizations. The labor collective of self-managing economic organization entrusts workers congress, economic commission, and brigade committees to execute the leadership of the economic organization as a whole. The economic commission, which is the leadership executive body, is formed through election, and its chairman serves as enterprise manager who represents both the state and the labor collective. All self-managing economic organizations are legal persons, including enterprises, integrated economic bodies, integrated complexes, comprehensive agricultural and industrial entities, economic federations, commercial cooperatives and other organizations approved by the Council of Ministers to engage in economic activities. Self-managing economic organizations are the managers of socialist property. They have the right to make independent decisions on all problems arising in the process of management and take full responsibility for their operations on condition that they receive supervision from the state.

Poland implements enterprise self-management. Enterprise self-managing organs began in 1982 to administer enterprises, implement the principles of independence, self-management, and sole responsibility for profits and losses, and make policy decisions on major issues such as the production and distribution of enterprise, but they should solicit opinions from enterprise workers' self-managing organizations including workers' congress and meeting. Workers' congress is responsible for making annual evaluations of activities carried out by workers' meeting and enterprise manager and has the right to endorse or disapprove on all issues of enterprise. Workers' meeting enjoys 15 rights including the rights to revise enterprise's annual plan, appoint and remove enterprise managers, and supervise all activities carried out by enterprise. The managers of all self-managing enterprises (temporarily not including over 1,400 large enterprises in the country) are elected by self-managing organizations. Poland has also practiced self-management of local political organs. Through the legislation in 1983 concerning local people's assembly and local self-management system, Poland decided to delegate most administrative powers to grassroots government organ—the township people's assembly.

Since 1985, Hungary has practiced self-management in small and medium-sized and some large enterprises. These enterprises are no longer affiliates of state administrative organs. They now carry out state plans, policies and decrees and business operations on an independent basis. The enterprise committee is the enterprise's policy-making organ. It has the right to determine enterprise's management policy, development goals, business plans, profit retention and distribution, and personnel issues. Leaders of this type of enterprise are chosen through direct election. Cooperatives have also implemented the self-management system under which the

cooperative committee makes decisions on all production and managerial issues and the head of cooperative is directly elected by the general meeting of cooperative members.

As far back as 1981, Czechoslovakia raised the issue to practice "self-management by the people." Again in January 1987 in "the 37 Principles for the Reform of Economic Organs," Czechoslovakia advocated the need to expand self-management to allow more working people to participate in management.

3. Reforming and readjusting government organs and reducing unnecessary employees

Hungary, Poland, and Bulgaria carried out reforms and readjustments of government organs in light of the needs of their economic development and the demands of different phases of their economic structural reforms. Their basic practices are:

A. Streamlining state organs and reducing their staff. In the past 5 years, Hungary has merged five central ministries of industry into one with the number of cadres reduced by one half; and changed local administrative organs from three levels—provincial, county, and grassroots—to two levels—provincial and grassroots. In the new Polish government, which was established in November 1985, the number of vice premiers was reduced from 8 in the former government to 5, and the 30 original ministries were reduced to 26. Before and after the 13th Bulgarian Party Congress was convened in 1986, Bulgaria abolished 12 commissions under the Council of Ministers, established 7 new commissions, reduced staff by several thousand people, and readjusted the functions and affiliations of some organs at the ministry level.

B. Establishing new types of government organs. In early 1986, Bulgaria discarded the "old method," under which the Council of Ministers exercised leadership over enterprises and corporations through different ministries, and established commissions, which are under the direct control of the Council of Ministers, such as economic, social, and ideological development commissions. These commissions, which were established in accordance with the principle of autonomy, are brand new auxiliary bodies of the Council of Ministers. They have the right to adopt decisions bearing the same effect as laws and regulations adopted by the Council of Ministers. Economically, they have great independence and authority to surpass the level of ministry. They can exercise direct control over organs and companies in related fields. Bulgaria has established some organs at the ministry level that have dual functions—state and social. All or some leaders of such organs are elected. For example, the Bulgarian National Educational Workers' Congress elected the highest leading body of education in the

nation—the National Educational Commission which has combined state and social functions to mobilize the forces of the whole society to engage in the undertaking of education.

C. Delegating some functions of government organs to social organizations. Since the 1960's, Bulgaria has delegated the work of such government organs as sports, labor protection, social security, culture, broadcasting and television to related social organizations. For instance, the Highest Sports Commission under the control of the Council of Ministers has been abolished and its work taken over by the National Sports Association. In early 1980's, Bulgaria delegated part of the work of the Ministry of Labor to the National Board of Directors of the Workers Union.

4. Reforming the cadre system

The reform of the cadre system plays an extremely important role in the political structural reform of the four East European nations. Their main practices are:

A. Democratic and open selection of cadres. In early 1983, Hungary advertised for the position of enterprise leaders, stipulating that applicants would have to campaign for the position and the general employment period would be 5 years with the first and second year as a probation period. Poland implements a system under which candidates, either recommended by the party organization of the enterprise or by themselves, submit their administration plans for the enterprise to be discussed at the meeting of a committee formed by members of party organizations and representatives of unions, and staff and workers, and those who have passed the examination will be appointed by the higher level. Bulgaria uses the campaign method to solve the cadre problem. Their requirement is that the candidates must submit a detailed plan to increase production returns. Those who have the best plans according to the evaluation of the appraisal committee will be hired. Czechoslovakia is considering the possibility of letting the workers of state-run enterprises choose their own managers who currently are appointed by the state.

B. Systematic cadre training. Reserve cadre training is considered as an important condition for ensuring the timely replacement of cadre contingent and increasing work efficiency. Some countries have special rules and regulations in this regard. The Polish Communist Party stipulates that in accordance with the principle of open selection for leading cadres, a group of reserve cadres for all levels of leading positions should be selected among outstanding specialists and organizers of social activities who have shown remarkable ability and talents. There are no hard and fast rules regarding the number of reserve cadres. It is flexible and can be readjusted after each evaluation of cadres. Poland implements the cadre reserve system not only at the central level but also at all local levels. In 1985 alone, commissions under central ministers and organs at all local levels selected several

thousands of reserve cadres, of which, 64 percent were non-party personages. All of the four nations have a fairly complete cadre training system. For instance, Hungary implements a system under which cadres are trained every 5 years.

C. Systematic cadre evaluation. Cadre evaluation covers political quality, working ability, and moral integrity and is generally conducted once every 3 to 5 years. The appraisal committee will hold meetings where cadres awaiting appraisal will deliver work reports in person and receive their evaluation report and then the committee will vote to decide whether these cadres' performance is satisfactory, basically satisfactory or unsatisfactory. According to these decisions, the committee will make suggestions to the units of these cadres on promotion, reward, transfer, demotion, and conferment or cancellation of honorary titles. In addition to the appraisal, examination is also an important method in Poland. It was first introduced in the military and then applied to the cadres of state administrative and party organs in 1982 and 1983. About 2,914 leading cadres of the government's 27 ministries and commissions in charge of economic work, including the premier and vice premiers of the government, ministers, and cadres and experts of departments and bureaus, and over 8,700 managers of state-run enterprises and factory directors have taken the examination.

D. Legalized cadre reward and punishment system. Hungary, Bulgaria, and Czechoslovakia implement the policy of "rich reward and severe punishment" among enterprise cadres. Hungary stipulates that the authorities concerned have the right to raise the wages of those managers who have made outstanding achievements at work. With state rewards, enterprise leaders' gross income can triple or quadruple that of the average wage. Enterprise leaders should take economic responsibility and cut their bonuses if their enterprises suffer losses and will be paid only 75 percent of their basic wage in the second year of loss. If their enterprises fail to turn losses into profits in 2 years, they will be fired. Since January 1986, Bulgaria has adopted a new wage reward and punishment policy under which leaders of economic organizations and enterprises are rewarded with raises, up to 20 percent of basic wage, if they can fulfill all their contracts, profit indexes and import and export tasks. Czechoslovakia also has similar reward regulations.

In addition, abolishing the system of cadres' lifelong tenure is another important aspect of the reform of cadre system and makes it possible to promote or demote cadres and give or take away official titles from cadres. Hungary and Poland stipulate that high-ranking party and government cadres should not serve more than two terms in office and that special cases should be decided by the central government. Some countries have implemented a cadre exchange system and formulated a complete cadre retirement system with specific regulations on the schedule of retirement.

5. Perfecting the legal system and rule by law

Hungary, Poland, Bulgaria, and Czechoslovakia have made concrete rules and regulations on the legal positions, functions, competence, tasks, and work style and methods of administrative and economic management organs in relevant laws, regulations, and resolutions, basically ensuring that administrative and economic management organs have rules and regulations to follow in their activities.

A. Strengthening social and economic legislation. In order to protect citizens' interests and rights and develop socialist democracy, Bulgaria has formulated people's entrustment, appeal, accusation, proposition, and consultation laws. Between 1981 and 1983, Poland passed 20 bills alone in economic legislation. In recent years, it formulated some important laws such as anti-monopoly, foreign enterprise, bankruptcy, and nuclear energy laws. In regard to the legislation of self management, Poland has formulated the workers' self-management law of state-run enterprises, the self-management laws of individual peasants' organizations and cooperatives, various forms of workers' self-management laws, the self-management law of institutions of higher education, and the local self-management law. In addition, Poland has made a series of amendments to the criminal, law violations, civil administration, labor, and agricultural laws to make them more up-to-date. Czechoslovakia has formulated the socialist enterprises law (which was promulgated on 18 July 1987) and revised the provisions of the economic, labor, and other relevant laws.

B. Exercising strict supervision over law enforcement. The Polish and Hungarian national assemblies have special supervisory organs to supervise and examine whether the resolutions of government organs conform to the law. For instance, Poland has various higher courts at the central government level. Among them, the National Court handles law violations committed by high-ranking national leaders such as the chairman of the State Council, the premier of the government, and the chief procurator of the highest procuratorate; the task of the Constitution Court, which is formed by high-ranking legal officers, is to supervise and examine whether the resolutions and regulations of the government and its ministries embody the spirit of the Constitution; and the task of the Highest Administrative Court is to judge and revoke those rules and regulations of government organs at all levels which are not in accord with current laws. In addition, the Polish Party Central Committee established in 1981 a cadres' individual responsibility appraisal committee which has conducted general inspections of all cadres, announced the results of the inspections, and punished in public those who have violated party discipline and state laws.

Main Experiences of Political Structural Reform

1. The steps of reform should be safe. It is reported that through practice these nations have realized the following: The development of political structure follows its

own objective law and a rather unique course. Compared to economic reform, it is a more time-consuming and more complex task which can only be carried out step by step and not accomplished in one move. When picking the time for reform, we should fully consider whether subjective conditions are ripe and how much can be accepted by society. Before conditions are ripe, we must not do anything without careful considerations or make any hasty decisions; we must make sure that every move is safe.

2. Political structural reform must be carried out in tandem with economic structural reform to promote and adjust to each other. Leaders of these nations believe that without political structural reform, there will be no profound economic reform; and that economic reform will inevitably bring about profound social and political changes. Lazar, former politburo member of the Hungarian Socialist Workers Party, said in a 1986 speech: Economy, politics, society, and culture are four interconnected independent circles and it is impossible to single out only the circle of economy. Without other reforms, economic reform cannot hold its ground. Some reforms which may seem feasible from the economic point of view are not necessarily feasible from the political point of view. They may not be suitable for functional organs or accepted by society. Istvan, secretary of the Hungarian Party Central Committee, said in April 1986 that in accordance with the requirements of socialist democracy, Hungary should reform its political structure like the economic structural reform to ensure the sound development of future economic reform. Strougal, premier of Czechoslovakia, said in a 1986 speech that an important reason why Czechoslovakia had failed in two previous reforms was that at that time, reform was narrowly interpreted as changes to be made in economic area only, and no reform was simultaneously carried out in political and ideological fields. As a result, economic reform could not be carried out successfully. Messner, the premier of Poland, emphasized in a 1986 speech that it was necessary to reform not only the economic management system but also administrative methods and expand the democratization of domestic life. Todor Zhivkov, general secretary of the Bulgarian Communist party, pointed out at the 13th Bulgarian Party Congress that in future reforms, Bulgaria should carry out fundamental reforms from economic basis to super structure and that economic and political structural reforms should be carried out simultaneously.

3. Inner-people's contradiction should be solved with the method of unified planning with due consideration for all concerned and coordination. This is an issue requiring great attention in political structural reform. Hungary and Poland put forward the thinking of "pluralism of people's interests" to supplement the traditional thinking of "monism of people's interests," contending that in the past socialism was idealized, that "uniformity" was overemphasized, and that "differences and contradictions" were ignored. Fundamental interests among the people are identical, but "differences and

contradictions of exist between the interests of different classes, levels, departments, and regions" among the people. These differences and contradictions sometimes clash with each other and show up in the distribution of national income and the relations between commodity prices and markets. The party's role is to coordinate different interests and guarantee the materialization of different interests on the basis of national interests. Only by so doing can the party arouse the enthusiasm of all circles and bring about the realization of common goals.

4. Party's leadership should be adhered to and perfected and reform carried out under party's leadership. Hungarian, Bulgarian, Czechoslovak, and Polish leaders emphasized on many occasions that the party should always stand in the forefront of economic and political structural reforms, that resolute efforts should be made to safeguard the leading position of the party, and that we must not make the slightest concession in this regard.

12302

CHENG MING Notes Reemergence of 'Conservatives'

40050176 Hong Kong CHENG MING
[CONTENDING] in Chinese No 125, Mar 88 pp 14-15

[Article by Shen Zhiyuan [3088 0037 3220]: "CPC Conservatives Active Again"]

[Text] Three months have passed since the 13th CPC Congress faded out amid widespread applause. The so-called new theory of "initial stage of socialism" has also revealed its true essence. The leading reformists are now alarmed by the waves of price inflation and panicky purchases sweeping over the cities and have to take every possible precaution. Sensible people in the mainland now begin to know something. It cannot be denied that heartening personnel changes took place during the "13th CPC Congress" when Zhao Ziyang, with the help of His Excellency Deng, succeeded in ousting the notorious conservatives one after another. However, they also know that like Deng Xiaoping, who is neither a CPC Central Committee member nor a standing committee member of Central Advisory Commission, and nevertheless able to play a key role in crucial moments only as Chairman of Military Commission, Chen Yun's pig-headed lieutenants, who have either retired from the "Central Discipline Inspection Commission" or stepped down from their leading positions in the ideological field, can still "make their influence felt." Under the spell of the "Four Cardinal Principles," Zhao Ziyang, Hu Qili [5170 0796 4539], Wan Li [5502 6849], and other reformists still find it difficult to "act boldly" and even find it necessary to make concessions on certain issues as an act of "showing respect."

Seventh NPC as a Test of Reformists

During the Seventh NPC and the Seventh National Committee of CPPCC to be held in late March, people will see, particularly from the personnel reshuffle of state organs, how the reformists will have to exercise extreme caution under the conservatives' pressure, and how Zhao Ziyang, while fighting with his political opponents, will have to appease or to compromise with them on certain issues. These "two meetings" will be the first test on the reformists' real strength.

There will be two such tests on other occasions, namely, the 5th Congress of Chinese Writers and Artists and the 10th Anniversary of 3d Plenary Session of 11th CPC Central Committee.

A More Serious Challenge in Another Meeting

The Fifth Congress of Chinese Writers and Artists will be concerned with several serious problems, mainly because of the many contradictions in the changes in the leadership of the China Federation of Literary and Art Circles. Some leftist princes may retreat into the ranks of advisers, but before then, they have for years recruited followers and propagated offsprings. It would be difficult to

weaken or to control their poisonous influences within a certain period, not to speak of eradicating them. Furthermore, there are differences even among the enlightened elements and the reformists in the literary circles; the effects produced by the conflicting views of different schools and by the mountain-stronghold mentality cannot be ignored. That is why people can anticipate a real showdown in the "Literary Congress." Who will get hurt and who will escape unharmed by that time remains to be seen.

Ideological Precursors' Statements with Disastrous Results

It may probably be far more difficult to commemorate the 10th Anniversary of the 3d Plenary Session of 11th CPC Central Committee. If the meeting, in which the participants with opposing views are determined to have a showdown is not well run, it can very easily become the scenes of bickering and violent verbal attacks. That historic 3d Plenary Session of 11th CPC Central Committee, which took place 10 years ago, cannot easily fade from people's memory, and we have fresh memories particularly of the main issues discussed in that meeting. Let me ask: how many intellectuals can forget the article "Practice Is the Sole Criterion for Testing Truth"? And who can forget the tragedy of Hu Yaobang who added the word "sole" in bold strokes to this title? To be frank, as some friends said, had His Excellency Deng not tried to maintain a balance of power after the 3d Plenary Session of 11th CPC Central Committee, there would not have been such major setbacks as experienced during the "liquidation of corruption" and "opposition against liberalization" initiated by the ambitious "leftist princes." These movements culminated in the "January 16" palace coup which practically eliminate the vision of the 3d Plenary Session of 11th CPC Central Committee for emancipation of mind. In commemorating the 3d Plenary Session of 11th CPC Central Committee, who can possibly forget the fate of such people as Guo Luoji [6753 5012 1015], Li Honglin [2621 3103 2651], and Ruan Ming [7086 6900] who made stirring remarks in the "meeting for the discussion of ideological questions"? Ruan Ming turned out to be the most unfortunate victim; even his party ticket was canceled simply because of his "lifestyle." There can hardly be a more vivid illustration of statements with disastrous results. When Hu Qili [5170 0796 4539] thought of commemorating the 10th Anniversary of the 3d Plenary Session of 11th CPC Central Committee, some people again played up the "Four Cardinal Principles" and looked for an opportunity to "oppose rightism." Trouble and difficulty on an unprecedented scale may ensue.

HONGQI Under Protection of Old-Timers With Ossified Thinking

The situation of literature and art, and journalism is disturbing. For example, the original team under Chief Editor Su Xing [5685 2502] of HONGQI has entered the Higher Central Party School and HONGQI has become

its theoretical journal. This team has now under its protection the HONGQI Mansion, a bone of contention for many years, while Gao Yang [7559 2254] has been forced to abolish the original mouthpiece of this school. This shows the great might of the old-timers in lodging complaints. Even General Secretary Zhao dares not touch a hair of any one in these two groups.

Another example is that when time came for personnel changes in the party and government organs of Beijing Municipality, that notorious leftist "leader" Xu Weicheng [1776 4850 6134] was ousted by a plurality vote. Yet somebody went out of the way to protect him. As a result, he still retains the title as deputy secretary of Beijing Municipal Party Committee, and nobody dared to unhorse him for being among the "three types of people in the cultural revolution."

Leftist Deng's Residence Full of Distinguished Guests

Deng Liqun's [6772 0500 5028] potential cannot be underestimated, although he ended up as only an ordinary member of the "Central Advisory Commission." According to recent information, his residence in a certain alley in Dongnancheng Xiaojie is always full of distinguished guests with a lot of action going on. Deng himself has openly declared: "I must get the seat of vice chairman of the NPC Standing Committee and keep my title as state leader." Such bold remarks, even though from some one like a dog in water, cannot be taken lightly.

It may be of greater interest to note that even RENMIN RIBAO, the highly prestigious mouthpiece of CPC Central Committee, is now at a loss as to what to do. Late last year, RENMIN RIBAO reported on the quiet in literary circles in 1987 on different occasions and was criticized by Hu Qili. Hu forced the press to publish something against its own conscience in order to enliven the literary circles, then in a state of depression and full of contradictions. This was a really difficult task. The chief editor and the editorial department of RENMIN RIBAO were like muted horses, and even the latest article by Wu Zuguang [0702 4371 0342] was shelved. According to our information, the last sentence in Hu Zuguang's

article read: "Is not this out-and-out feudal liberalization?" This were "forbidden words" and likely to get on the authorities' nerve. The chief editor sought to consult with Wu Zuguang, that former boy genius, and begged him to delete this sentence. However, Hu was adamant, resulting in a deadlock.

Liu Zaifu's [0441 0351 1788] Indignant Counterattack

If there is anything that may cheer up people in Beijing now, it is probably the counterattack to be launched on Yao Xueyin [1202 7185 0995], the leftist literary whip, by Liu Zaifu, that theorist whose youthful vigor has by no means diminished with the passing of years. Late last year, according to our information, a correspondent of WENHUI YUEKANG named Liu interviewed Liu Zaifu and the latter took the opportunity to return Yao Xueyin the courtesy with a set of questions. Seventy-five percent of the reportage, more than 13,000 words long, was devoted to the criticism of Mr Yao along with a lurid picture of what he really is. This was heartening to the readers. In fact, it was beneath the dignity of Liu Zaifu to debate with this literary mummy; but, as Mencius said: "I don't like polemics, but I can't help it!" It was precisely for this reason that Liu Zaifu is going to fire an artillery volley in return. Somebody said: A pioneer in the 'study of Li Zicheng' and the founder of "Yao Xueyin Research Association," (briefly called "Yao Association," the seasoned writer Yao Xueyin is already aware of Liu Zaifu's counterattack and has shamelessly declared his readiness to accept the challenge. He added: "I must further expose Liu Zaifu as a pseudo-Marxist." His inflated-ego was clearly shown in what he wrote.

In view of the present dreary scene in the literary field of Mainland China, any controversy or debate would be welcomed as a means to enliven the atmosphere, to distinguish between right and wrong, and to stir up people's ideas. Therefore, we are eagerly waiting to see how Liu's counterattack will produce its effects, and how that old peevish Yao Xueyin will accept the challenge. I hope this controversy will break the monotony in the literary field, and bring along a fresh spring breeze.

NATIONAL AFFAIRS, POLICY

Article on Property Rights, Shared Ownership

HK160559 Beijing JINGJI YANJIU in Chinese
No 2, 20 Feb 1988 pp 3-10

[Article by Yang Ruilong (2799 3843 7893), post-graduate student of research institute on economics under Chinese People's University, in January 1988: "Separation of Property Right and the Model of Twofold Shared Ownership"]

[Text] People now follow two different trains of thought when tackling reform of the state-owned enterprises: One of them is to solidify the mechanism that keeps interests within the bounds through acts of streamlining organizations and decentralizing the decision-making power, in order to rationalize the acts of enterprises. But this train of thought is vulnerable to challenge by theory and practice because it does not touch on the definition of property right. The other train of thought is to take the clarification of property right as the primary way out for invigorating the state-owned enterprises, to which I cast my vote.

I

Contract System Is Not the Target Mode of Reforming the Non-State-Owned Enterprises

Being the specific mode for separating two kinds of power and perfecting the operations mechanism of enterprises, various forms of the contract system have been rapidly developed in recent years.

The popularity of the contract system originates from complex socio-economic sources. It can be regarded as a product developed after contradictions and conflicts among factors of the old and the new systems have, to a certain extent, struck a balance. On the one hand, the change of system mode depends on the reproduction of microeconomic foundations. Ever since we began reforming, the practice of streamlining organization and decentralizing the decision-making power has brought to enterprises a stronger motive for making profits, as well as the binding force of market. However, administrative intervention was still substantial so that acts aiming at keeping the budgets of enterprises within bounds were undermined. As enterprises depended on the state in either this or that way, their actions became bewildering. In order to put an end to this situation, we must reform enterprises in an in-depth manner. On the other, under the circumstances where two systems coexisted, factors of the old system still played the chief role though those of the new system had projected their promising future. Plans of reforming enterprises remained on the shelf because they were bounded by the old framework of interests. Though some plans were put into practice, they became very risky in an economic environment determined by the factors of the old system. It was just because of this that the contract system developed. The

system was an operations mechanism for perfecting enterprises under the prerequisite of safeguarding the ownership by the state. It neither completely broke with the traditional system of property right nor broke through the old framework of interests. Moreover, it had such characteristics as being easy to operate and efficient. It therefore went off without a hitch. At the same time, the share of profits between the state and enterprises during a specific period was determined in the form of contracts, thereby eliminating day-to-day administrative intervention. Furthermore, the assigning of decision-making power to enterprises undertaking contracts stimulated their vitality and, to a limited extent, helped us achieve our goals of reform in some respects.

However, we must not be contented with recent achievements made by the contract system. Rather, we must assess the cost for implementing the contract system (problems arising from the limitations of the contract system), opportunity cost (availability of a better choice), chain reaction (whether reform in other areas is strengthened or weakened), and long-term effects (does it possess the inherent tendency toward our target mode of structural reform). In his report delivered at the 13th CPC Congress, Comrade Zhao Ziyang painted a general picture of the new system. He said, "Generally speaking, the new mechanism of economic operations should be the one in which 'the state regulates the market, and the market guides enterprise.'" Probably, the contract system is a less risky choice, but it lacks the power to break through the bounds of the old system. On the contrary, it makes factors of the old system become stable in the new mode. Therefore, it is impossible to conform to the requirements of the new system for becoming the target mode for our reform of state-owned enterprises.

First, an inherent requirement of the new system is to turn enterprises into economic entities whose operations are independent and who assume sole responsibility for their profits and losses. But the contract system focuses on stimulation by income in order to deal with the distribution of profits between the state and enterprises within a specific period. It does not touch on the system of property right. As enterprises do not have the status of legal entity, it is difficult to develop a rational mechanism for enterprises' acts. (1) Enterprises undertaking contracts have no right to dispose of their assets, neither are they really responsible for any profits derived from or loss sustained by the state-owned assets. In other words, the boundaries of property right are obscured. Inevitably, soft bounds on property right accompany soft bounds on budgets. Hence, the tendency of bargaining is developed among enterprises as a result of the administrative intervention. For instances, they bargain with the state on the contract base when entering into contracts; on pricing, credit, taxation and subsidies during their contract terms; and on realization of profits when performing their contracts. (2) As the contract system does not touch on the essential issue of property right, we encounter difficulties when determining the ownership

of additional assets invested by enterprises undertaking contracts through self-financing. The long-term acts of enterprises will of course be stimulated if such additional assets are owned by enterprises. But this goes contrary to our goal of implementing the contract system. If such additional assets are owned by the state, and enterprise operators simply boost the value of fixed assets without any reward, the motive of self-accumulation among enterprises will undoubtedly be hampered and their short-term acts will incline toward the tendency of consumption. (3) Under the contract system, enterprises can perform their limited liability and use their operations revenue to repay their operations debts only after they have delivered taxes and profits to the state. They have no right to use their assets as a way to perform their ultimate liability for repayment of operations debts because these assets are not owned by them. Whenever an enterprise suffers losses or becomes bankrupt, its ultimate liability for repayment is still undertaken by the state. Therefore, in practice, enterprises only assume sole responsibility for their profits but not their losses. (4) The projected revenue of enterprises is greatly influenced by the length of contract term, which shows that the long-term development motive of enterprises undertaking contracts is rather weak.

Second, an objective prerequisite for having an effective, new economic mechanism is the automatic coordination of microeconomic decisions by the market mechanism. We must therefore have the following conditions: First, enterprises are the major part of and are bound by the market. Second, there must be full competition. Third, the signals given by the market must be clear and obvious. These are the conditions which the contract system is unable to create. Of course, to a certain extent, the contract system pushes enterprises to the market. But because of the soft bounds on property budgets and since enterprises have no right to dispose of their assets, the realization of profits to be retained by enterprises simply depends on their bargain made with the relevant departments, rather than the bounds of the market. The twofold dependency on the market and the state by enterprises makes enterprises become less sensitive to market changes and act irrationally. As a result, the market signal will become distorted when reflecting the supply-demand situation of the market. Fair competition will be unable to develop because of the twofold limitations by the administration and an abnormal market. As enterprises, which assume asymmetric sole responsibility for their profits and losses, fail to become the real, major part of the market, the market mechanism is of course incomplete. If we strengthen the stimulation of interests under these circumstances, we shall make their actions become bewildering.

Third, the formation of a rational mechanism for changing the structure of industry is an important condition for establishing the new system. Betterment of the structure of industry may be realized by readjusting the assets inventory and putting in new investment, but the contract system may make the structure become too rigid.

(1) As enterprises undertaking contracts have no right to dispose of the state-owned assets, no matter what happens in the market, they are unable to transfer or reorganize the composition of limited-life fixed assets. (2) Enterprises undertaking contracts may also utilize their retained profits and loans to undertake investment. Their selection of investment orientation is bound by, first, the expected rate of profit and, second, the contract term, that is, whether or not the additional investment can increase the enterprise revenue and workers' wages within the contract term. This is because the fixed prices of products in short supply are lower than the overall price, and thus the expected rate of profit drops. A short-term investment usually has a long payoff period and is risky. It does not conform to the short-term interests of enterprises. Furthermore, they only have a small capital and a rather weak technical force. It is very difficult for them to make breakthroughs. Consequently, many enterprises invest their capital in those long-term industries which require more capital, yield more and quicker profits. This thus strengthens the supply-demand bounds on important investment items. (3) The contract system is unable to overcome disadvantages of the traditional system of investment. The state is still the major decision-maker on matters about investment even after the delivery of revenue derived from and taxes on assets. However, the boundaries of property right to the assets inventory, as well as their increase, is obscured, so that the liability and interests of making decisions on matters about investment become asymmetric. Eventually, they overlook the actual situation and blindly make decisions on investment, thereby intensifying the uneven structure of industry.

Fourth, the new economic operations mechanism requires the state to mainly use economic means to indirectly control enterprises; whereas the contract system fails to create the necessary microeconomic basis for changing the macroeconomic mode of control. After the implementation of contract system, the government remains to be the one responsible for macroeconomic control and the owner of assets. In the former capacity, the government aims at realizing the general goals of society; whereas in the latter capacity, it must take good care of the operations of each enterprise. When a conflict arises between these two roles, the government often achieves its goals of macroeconomic control by strengthening the administrative intervention over enterprises at the expense of efficiency at the microeconomic level. Moreover, the state and enterprises determine their contract base and distribution of profits through one-to-one negotiations, and there are no standards on property right. Under the circumstances where a particular ratio is determined for each enterprise, the market mechanism is of course distorted. This makes it more difficult for the state to indirectly control enterprises through the medium of market, so that it tends to adopt the mode of direct control.

II

Innovation of the Property Right System: Twofold Shared Ownership

It is difficult to successfully overcome the inherent shortcomings of the contract system by perfecting the system itself. This is because "the crux of the contract system does not lie in its operations." (Footnote 1) ("Contract System: The Initial Selection of Structural Reform of State-Owned Enterprises" by Du Haiyan [2629 3189 3601], JINGJI YANJIU No. 10, 1987) Rather, it lies in the underlying disadvantage that it fails to overcome the "intangible property right" in the traditional system of ownership by the state. Therefore, the key to deepening reform of enterprises rests with the clarification of property right.

When tackling the clarification of property right, people always tend to focus on shared ownership. Being a form of enterprise organization corresponding to the socialized mass production, the shared ownership can adopt different types of ownership and modes of operations. Through coordination and the balanced profit relationship between owners and operators, it allows stock companies which have the status of a legal entity to occupy and dispose of their enterprise assets that they do not own. This provides them a new channel for raising funds, provides investors a new means of investment, and helps us perfect the market mechanism and improve the arrangement of resources. We may think in this way: Shared ownership represents a new direction chosen by China in its development of the property right system.

When promoting shared ownership, we should notice the following points. First, we should avoid promoting shared ownership under the present system of property right and the current practice of distributing profits. This is because the ownership of shares will be highly centralized and stock enterprises will still be subject to routine intervention by the largest shareholder, the state. In most cases, this will simply be the old wine in a new bottle. Second, we should avoid promoting shared ownership by a universal transfer of state-owned assets. Of course, this diversifies the ownership of shares at the expense of the means of production, which plays a major part. It seems that any act of arbitrarily diversifying the ownership by the state is both theoretically and practically groundless. Third, we should avoid indiscriminately copying the shared ownership from the West because it is not recommendable. The shared ownership in the West is a natural product of a highly developed commodity economy, whose major part is the private ownership by capitalists. The basis for operating the shares economy lies in the determination of personal property. China is developing its shares economy on the basis of public ownership and its underdeveloped commodity economy. Therefore, their rules on property right, as well as the operations

mechanism for shares economy, which are effective in the West, may not function properly in China. This requires us to modify them and make them suitable for China's situation.

In reality, our only choice is to promote shared ownership under the prerequisite of not changing the nature of public ownership of the means of production. However, the diversification of ownership of shares is the prerequisite for achieving an independent ownership of companies, as well as the normal operation of shares economy. Our problem is how to mitigate the contradiction between the centralized ownership by the state and the diversification of ownership, and how to deal with a series of problems derived from this contradiction. I hold that the promotion of a twofold shared ownership may be a better solution. The twofold shared ownership can uphold the nature of socialist public ownership and the realization of interests of the state, as well as determine the boundaries of property right. It can form a set of general rules for an effective operation of shares economy, so that it can be selected as the target mode for reforming the state-owned enterprises.

The twofold shared ownership is a new type of property right system consisting of two levels of share market and four sections of separated authority which coexist on the same plane and whose contents are interrelated and different. **The first level is to diversify the ownership of shares held by the state by way of issuing quasi-shares.** Being the first step for promoting the twofold shared ownership, it is, under the conditions where the state continues to legally own the assets, to diversify the ownership of shares held by the state, and to create the prerequisite conditions for making the property right of stock companies independent, through the introduction of a quasi-stock market. It includes two sections of separated rights:

The first section is the separation of the right of macro-economic control from the right of ownership of assets—The necessity of separating the two is: (1) The two pursue different targets and have different functions. Being the one in charge of the control, the government is responsible for achieving the macroeconomic goals; whereas being the owner, it strives to maximize the profit per unit of asset value. It is often difficult to completely unify the twofold goals on the same plane, because this will develop a dual standard for making decisions and will affect the efficiency of making decisions at macroeconomic level. (2) The two have different objects of action. Being the one in charge of the control, it aims at creating an environment for fair competition and takes macroeconomic variables as its object of control; whereas being the owner, it takes the microeconomic part as the object of management, that is, it takes care of the assets and operations situation of each enterprises owned by it. (3) The two are different in management style. Being the one in charge of the control, it can only indirectly realize the social preference through the medium of market; whereas being the owner, it can directly impose bounds

on assets and up to directly taking over the operations of enterprises. When the two types of rights are combined into one, the government can easily act in the capacity of the owner and achieves its goals of macroeconomic control by giving direct mandatory instructions to, or exercising administrative intervention on, state-owned enterprises. Consequently, the boundaries of property right are obscured, enterprises lack vitality, and it becomes more difficult to realize macroeconomic control because of the lack of a good market environment. Therefore, the separation of the right of ownership of assets from the right of control is the first crucial step for clarifying the property right.

After the dual functions of the government are separated, the NPC legislature will exercise the power of making economic laws and govern economic acts; whereas the State Council and relevant departments will apply scientific methods to formulate practical medium- and long-term economic plans, will project to enterprises the trend of economic development, and will input the information about planning into functionary organs responsible for the control. The Ministry of Finance and the central bank will mainly have the right of macroeconomic control. Through a centralized fiscal policy and currency policy, they will input economic parameters into the market. Through a macroeconomically readjusted market mechanism, these parameters automatically coordinate itself with decisions made at microeconomic level, and indirectly guide the operations of enterprises to develop in a direction parallel to the social preference. Furthermore, the government is still the owner of primary facilities and non-profit-making enterprises, and undertakes investments in this area. Inevitably, the separation of government functions is followed by the separation of taxes and profits delivery. The Ministry of Finance will collect taxes at a unified tax rate, and will have ordinary fiscal expenditures. On principle, therefore, the government will no longer play a major role in profit-making investment.

The ownership of assets is legally held by the administrative bureau for state-owned assets (hereinafter referred to as the assets bureau). The state-owned assets consist of inventory and the newly increased flow of assets. The assets bureau must first re-assess the value of state-owned asset inventory. During assessment, it should take into consideration both the original value and depreciation of fixed assets, and technical and economic situation such as the recent profit yield rate of capital and the product sales of enterprises, so as to make the assessed assets value reflect the current market value. After assessment, the value of state-owned assets will be converted into shares at a certain denomination. The state earns dividends by its right of ownership. The dividends will go to the assets bureau and will be listed as investment funds for increasing the value of state-owned assets. The goal of the assets bureau is to guarantee the completeness and value increase of the value of state-owned assets, so as to maximize the revenue from assets.

The second section is the separation of the right to obtain returns from state-owned shares from the right to handle shares—After the value of state-owned assets is converted into shares, there develop two kinds of right: first is the right to obtain returns, that is, to obtain dividends on the proof of equity investment; and second, the right to handle shares, that is, in order to maximize the return of assets, the imposition of bounds on properties of stock companies through voting by "a show of hands" at shareholders' meeting and by selection at the stock market. If both the right to obtain returns and the right to handle shares are monopolized by the assets bureau, the share rights will inevitably be highly centralized. The assets bureau can therefore control the day-to-day operations of a company by monopolizing the stock market or directly appointing its chairman or members of the company board. It will eventually blur the boundaries of property right, and the stock companies will only exist in name. In order to tackle this issue, we suggest that the assets bureau only keep the right to obtain returns from shares, and assign the right to handle shares to diversified state-owned holding companies. Through a quasi-stock market, the relations between the two will be clarified in terms of duty, rights and interests.

First, upon examination by the legal organs and approval from the departments in charge of state properties, we may establish in various localities mutually independent, diversified and competitive holding companies. In order to obtain the right to handle shares, these companies will issue to the assets bureau certain quasi-shares at an amount equal to the state-owned shares. These quasi-shares are similar to preference shares, and possess the following characteristics: (1) They are a certificate of investment in shares by the assets bureau, certifying the legal ownership by the assets bureau of the assets at their nominal value, and quasi-dividends therefrom are the economic form of realization of the ownership. (2) The assets bureau uses the state-owned shares, rather than capital, to buy the quasi-shares. It periodically receives dividends at a rate promised by the holding companies. The higher the rate, the more is the dividends. (3) While buying the quasi-shares, the assets bureau transfers to someone else the risks of and the right to handle the state shares. In other words, these quasi-shares only embody the right to obtain returns, and the assets bureau is no longer able to impose direct bounds on the properties of stock companies. (4) The quasi-shares are circulated only in a one-way direction between the assets bureau and the holding companies, and are unavailable in a real stock market. Moreover, these shares are only sold once. The assets bureau can only periodically receive dividends therefrom and may not transfer any of them afterward. It will claim its compensation on the strength of the shares only when these holding companies become bankrupt. Therefore, the value of these quasi-shares equals their nominal price, and their dividend rates will not be changed after being fixed. The issuance and purchase of these quasi-shares will therefore form a quasi-stock market, which only reflects the economic relations between the assets bureau and the holding companies. The setting

of quasi-dividends in the quasi-stock market is similar to bidding. A holding company determines its dividend rate of quasi-shares issued by it by basing on the value of state-owned shares held by a certain stock company and its prediction of moving trend of the dividend rate. If the rate of quasi-dividends is set too low, it will be unfavorable to the company in question in obtaining the right to handle shares. If the rate is set too high, the company will receive little or even suffer losses after the payment of quasi-dividends. An appropriate rate of quasi-dividends will thus be determined amid full-scale competition among the holding companies. Generally speaking, the maximum rate of quasi-dividends will be the maximum dividend rate of its corresponding shares in the stock market; whereas the minimum rate will be the average interest rate of intermediate and long-term loans. After comparing the rates of quasi-dividends offered by various holding companies, their credit worthiness and strength, the assets bureau will make its choice and use the state-owned shares to buy a certain amount of quasi-shares. Upon transaction, the assets bureau is still responsible for supervising them. For instance, it will prohibit holding companies from breaking laws or infringing on the state-owned assets. It may, when it deems necessary (such as bankruptcy), recover its power of holding through forcible execution, and demand the holding company in question to perform its liability for the losses it sustained. But the bureau has no right to intervene the handling of shares which comes within the jurisdiction of the holding companies.

Second, the holding companies are economic entities which operate independently and assume sole responsibility for their profits and losses. Provided that they fulfill their promise, periodically pay dividends to the assets bureau at an agreed rate, and undertake risks of handling shares, they can control the share rights of state-owned shares like a shareholder. This includes the right to reorganize the profile of shares and impose bounds on properties of stock companies. The revenue derived from taking risks in handling shares is the major sources of profits for a company. The operations motive of holding companies is to pursue maximum returns with minimum risk. As the amount of dividend payment is fixed, a holding company may increase its rate of profit if it acts rationally. The increase of profits is followed by an increase of dividends distributed in accordance with the nominal value of shares. The revenue for taking risks received by the company will therefore be increased. Also, the increase of dividends means a rise of share price. Since the nominal value of quasi-shares equals to the ownership by the assets bureau of the value of assets, any rise of share price undoubtedly increases the intangible assets owned by the holding company. Moreover, the company may retain profits after deducting cost and taxation from the revenue. Once it has become accumulation, it can be assets owned by the company. All these can strengthen a company's debt-paying ability, and are favorable for them to obtain the power of holding in the competition. However, if a company handles its power of holding irrationally, its

dividend rate and its share price will drop. It will encounter troubles and even face bankruptcy. Therefore, under the stimulation of striving for profits, the holding companies will seek the best mode of holding.

Third, after a competitive situation is developed among the holding companies, there will be changes in the principal process of investment decision-making. On improving the results of investment, the assets bureau will not directly play the role of investor. Rather, it will transfer the decision-making power to the holding companies by way of using the dividends it received to buy the quasi-shares and thus obtain the legal ownership of the increased assets and the right to obtain returns. Acting in this way, the assets bureau directly use capital to buy the quasi-shares. Therefore, the holding companies are at the same time investors. As only when the rate of return on investment is higher than the rate of quasi-dividends can the revenue of a company be increased, the holding company will of course carefully study the development trend of the structure of industry and the market situation, so as to select the appropriate direction of investment which may yield greater returns.

The second level is to develop a real shares economy after diversifying the ownership of shares held by the state. The key to this work is to form an efficient stock market through the diversification of the ownership of shares. This helps us promote an independent property right of stock companies, as well as ensure the rationality of economic acts by the stock companies under the restrictions on their properties and by the market. It also includes two sections of separated rights:

The first section is the separation of share rights from the right over things—The intangible assets, which exist and function in the form of shares, are owned by shareholders. They have the right to dispose of shares, undertake risks of share assets and obtain dividends. The enterprise assets, which exist and function in the physical form, are owned and controlled by stock companies. Through a stock market, the relations between the two will be clarified in terms of duty, rights and interests.

First, the ownership of shares is relatively diversified. This does not rule out the possibility that a few important, large enterprises will simply not become listed companies because their shares are in the hands of several powerful holding companies in order to exercise effective control over these key enterprises. However, the ownership of shares of most companies is diversified, and these companies will become listed companies. This is because: (1) The assets bureau will follow the principle of diversification when transferring to holding companies the right to control a certain trade and ordinary state-owned enterprises, in order to make the property right of companies become independent and to avoid any holding company monopolizing a certain trade or the production of a certain product and avoid excessively intervening in enterprises. (2) Holding companies obtain their profits by undertaking the risks of holding.

They will therefore constantly sell or buy shares in accordance with changes in the structure of industry and in the market situation in order to diversify their risks, so that the shares will not be in the hands of a single trade or single stock company. This promotes a further diversification of share rights. (3) A number of varied holding entities will emerge in the stock market. In addition to the holding companies, there will mainly be institutional shareholders such as funds, insurance companies, non-governmental financing institutes and industrial and commercial banks. Their sources of capital are, first, various special funds; second, fiscal allocation for special purposes; third, various savings and insurance; fourth, investment capital by residents through some organizations; and so on. These organizations may buy shares transferred from the holding companies at the stock market, or may buy shares issued by the stock companies in order to readjust the structure of shares and reduce the risks of their equity investment. Furthermore, stock companies may hold each other's shares, and laborers may also buy shares. The diversification of shareholding will of course help the diversification of share rights.

Second, after the diversification of share rights, no single shareholder can actually control the operations of assets by a listed company, so that the property right of stock companies is independent. Being a legal entity independent from the ultimate owner of its assets, a company may act like an owner and possess, control and utilize the company's properties, enjoy the rights relating to the assets, undertake civil obligations, and establish economic relations with another legal entity or natural person. The operations goal of these companies is to maximize their profits. Their sales revenue after fixed and variable costs will be taxed at a unified tax rate. Part of the net profit will be first distributed as dividends, and the remainder will be the undistributed profit of these companies. A rise of the rate of net profit will push up the dividend rate and share price, thereby attracting more capital. Otherwise, the company in question will encounter predicaments or even become bankrupt. Being the major decision-maker on the direct investment, these companies have the inherent motive of pursuing a long-term development. Investment can be divided into two categories. One of them is intensive investment. The sources of investment capital of this category are depreciation expenses and capital obtained by selling fixed assets in the readjustment of assets inventory by these companies in connection with the market situation. The other category is net investment whose sources of capital are: (1) funds raised at the stock market by issuing shares, or funds raised by issuing a certain amount of non-listed shares within the company in order to make workers care about its long-term development; (2) debentures issued by these companies; (3) loans granted by financial institutes; and (4) undistributed profits of these companies. As a company must repay debentures issued by it and loans granted to it together with interest thereon within a specific period, its short-term net profit will drop. The short-term distribution of dividends will be less if a company uses its

undistributed profit to undertake investment. If a company assume an appropriate amount of liability and undertake investment at a proper scale, it will boost its strength and improve its competitiveness, thereby pushing up its share price. This will increase the asset value of shareholders and their long-term dividend revenue, as well as conforms to the basic interests of shareholders. Of course, if the scale of investment is excessively large, the short-term revenue of shareholders will sharply drop, the share price will fluctuate and the reputation of the company in question will be adversely affected. It is possible that after the independence of property right, these companies can find their optimum point between their short-term interests and long-term ones.

Third, there will be bounds on properties after the property right of companies is independent. Direct bounds on properties play a major role among a few stock companies a small percentage of which are listed on the market. In this practice, shareholders may directly control or exert influences through the board of directors on the company's decisions on material matters. But shareholders always pursue the maximization of returns from assets, which is realized by depending on the maximization of profits by these companies. Therefore, shareholders will not arbitrarily intervene the operations of these companies provided that their decisions do not conflict with the basic interests of shareholders. The direct bounds on properties owned by companies whose share rights are highly diversified are relatively weak. Shareholders exercise their right to vote, elect their board of directors, formulate the articles of association and determine the long-term development goal of their companies at shareholders' meetings. Thus, after the board of directors starts functioning, it will not be subject to the control of any shareholder. However, there will be more indirect bounds on properties owned by these companies because a high percent of them will be listed. In other words, shareholders put bounds on the properties of these companies by selection on the stock market. If a shareholder is not satisfied with the situation of a company, he will sell its shares and cause the share price to drop, making that company face difficulties. If not, he will buy its shares and push up the share price. Therefore, in order to achieve a long-term steady development, these companies must take into consideration the interests of shareholders when making their business decisions.

The second section is the separation of the right of ownership by the legal entity from the right of operations in a stock company—a board of directors is the legal representative of the property right of a company. It is formed by election at a shareholders' meeting, is held itself responsible to the shareholders, and independently control the property right of the company. The income of members of the board of directors is linked to the operations efficiency of the company, and the members undertake responsibility for profits and losses of their assets. Acting in accordance with the articles of association and the long-term development plans formulated at

the shareholders' meeting, the board of directors is responsible for determining the intermediate development goals and makes decisions on material matters such as the disposal of assets, issuance of shares or debentures, appointment and dismissals, supervising and awarding and punishing ranking managerial staff of the company, assessing the performance of the company, and so on. The routine matters are decided upon by a general manager appointed by the board of directors. Moreover, the general manager appoints its subordinate middle-level managerial staff. The general manager is held responsible to the board of directors and achieve the goals set by the company. His income is linked to the company's rate of net profit. The board of directors may not arbitrarily intervene in the decisions made by the general manager on matters that come within his authorization.

III

Strategic Selection: The Transition from Contract System to the Twofold Shared Ownership

The twofold shared ownership does not correspond to the commodity economy at the early stage of free competition. Rather, it is a new type of socialist ownership conforming to the inherent requirements of the planned commodity economy. Obviously, it is more favorable when compared to the contract system.

First, through clarified boundaries of property right, the twofold shared ownership overcomes the shortcomings of the traditional ownership by the state, or the "intangible property right." It can guarantee the completeness and value increase of the value of state-owned assets, and a steady growth of returns for asset owners. It can also make stock companies with independent property right become actual economic entities which operate independently, assume sole responsibility for their profits and losses, and automatically pursue its long-term development under the hard bounds on properties and by budgets. A series of issues left unsettled by the contract system are therefore easily solved under this system. If we exercise administrative intervention in various areas, and make the readjustment of asset inventory a rigid one, enterprises will depend on the state in either this or that way, they will not assume sole responsibility for their losses, and they will simply pursue their short-term interests. Furthermore, it will be difficult for us to handle this kind of situation among enterprises.

Second, enterprises will depend only on the market after we adopt the twofold shared ownership. Under the stimulation of striving for more profits, enterprises will inevitably compete with each other on the market. Once a major part of the market acts rationally and becomes highly sensitive, it will help the market develop clear market signals and perfect the market system, so that the readjustment function of market mechanism will be strengthened.

Third, the twofold shared ownership simultaneously will develop a new investment system and will form a rational mechanism for changing the structure of industry. After the decision-making power on investment is relatively diversified, the liability and the profits of making decisions on investment become symmetric because of the twofold bounds by the quasi-stock market and the stock market. The diversified investment will become the rational act of investment. As a stock company has the right to dispose of its assets, it will readjust its asset inventory in the wake of changes in the market supply and demand. Furthermore, under macroeconomic control by the state and the guidance of its industry policies, it can realize the rationalization of the structure of industry, and strike a balance between supply and demand.

Fourth, a microeconomic basis favorable to macroeconomic control will be developed after the implementation of the twofold shared ownership. Moreover, because of the separation of the right of control from the right of ownership, macroeconomic control may create the necessary economic environment for fair competition among enterprises, input into the market economic parameters that reflect social preference, and indirectly guide the operations of enterprises to the road which is parallel to the macroeconomic plans.

The twofold shared ownership is a product of reforming the old ownership system. To implement it is more difficult and risky than the contract system. However, it is inevitable that we must clarify the property right in order to reform the state-owned enterprises. Taking into consideration that the enthusiasm of implementing the contract system is spread across China, we may take the contract system as the starting point of clarifying the property right. In other words, we may introduce new elements into the contract system, make it become a prototype of the new ownership system, and gradually shift toward the twofold shared ownership. Therefore, we may reduce the risk and mitigate conflicts of interests in reforming our ownership system.

First, we may start separating the right of control from the right of ownership in implementing the contract system. The central authority centralizes the right of macroeconomic control through its functionary organs, and gradually replaces its direct control by indirect control. In order to standardize the control measures and spread them across China, it is necessary to centralize at the central level the right of macroeconomic control which has been assigned to localities and departments, so as to form a nationwide, united market, and to create an environment for fair competition. The state should at the same time set up an organization for administering the state-owned assets. Enterprises undertaking contracts are only held responsible to that organization and will perform contracts they have entered into. They will no longer have contractual relations with the departments of the Ministry of Finance or local administrative

organs, so as to avoid exercising administrative intervention on them and to avoid turning them under the ownership of the departments or the localities.

Second, individual entrepreneurs should enter into contracts on small state-owned enterprises, or such enterprises that make little profits or suffer losses. Corresponding contracts should be signed between the party which has won the bidding of contract and an administrative branch in charge of the state-owned assets. It is inappropriate for individuals to undertake contracts on medium-sized and large state-owned enterprises. A practical solution to this issue is to set up a board of directors in them through competition, and the board of directors and the administrative organization for administering the state-owned assets should enter into long-term development contracts, which should cover issues such as the targets of asset increase and profit delivery. Being the legal representatives of the right of ownership, the board of directors have the right of occupy, control and utilize assets of their enterprises, and is responsible for formulating the general principles for their development. Furthermore, the board of directors directly recruit business operators from society, that is, the establishment of contractual relationship between the operators and the board of directors. The operators are responsible for realizing the intermediate development goals set forward by the board of directors, and making decisions on routine matters. Being a prototype legal entity in the twofold shared ownership, the board of directors helps us alleviate and eliminate interventions by administrative departments, and clarifies the property right.

Third, the prerequisite of implementing the twofold shared ownership is to re-assess the value of state-owned assets and turn it into shares. However, the current contract system among enterprises mainly takes the quota of profit delivery as their conditions of contracts. They did not clarify the actual value of state-owned assets they have occupied. This is unfavorable to our transition toward the twofold shared ownership. A possible solution to this situation is to replace the contract system by the system of assets and operations responsibilities. This is because the new system takes a re-assessment of state-owned assets as the prerequisite. It determines the extent of asset increase and profit delivery by basing it on the assessed value of state-owned assets. Though the preliminary assessment may not be accurate, the figures may be about the market value upon revision. Once the conditions are ripe, the value may be turned into shares, and we shall shift to the twofold shared ownership.

Fourth, tax collection and profit delivery may be separated in the implementation of the contract system. Under the new system, the Ministry of Finance will levy taxes at a flat rate, while the profits delivered by enterprises undertaking contracts will be managed by the administrative organization in charge of the state-owned assets, will become the increased portion of state-owned assets, and be used as investment funds. In order to

increase the returns of investment, the investment departments will not directly undertake investment. Rather, they will assign the power of making decisions on investment to competitive and profit-making state investment companies through the purchase of quasi-shares. By selecting the correct direction and mode of investment and in order to increase their revenue, these companies will strive to make the rate of return on investment higher than the rate of profit. After we have shift to the twofold shared ownership, these companies will gradually become holding companies.

Fifth, while implementing the contract system, we may select step by step some localities whose capital markets are relatively developed, and implement on a trial basis the shared ownership among a number of state-owned and collective enterprises. In particular, we should encourage lateral economic links among enterprises which take shares as their media. In order to pool together the idle capital of society, we should also allow enterprises which undertake contracts and have the necessary conditions to issue a certain amount of shares upon examination and approval. Through investment in shares, the investment companies may invest in additional capital, and introduce the element of shareholding into these enterprises. We may allow relevant organizations, enterprises and individuals to invest in shares, so as to form a diversified structure of shareholding. Through these measures, we may gradually develop a stock market, as well as create conditions and accumulate experience for the implementation of the twofold shared ownership.

Sixth, the twofold shared ownership needs external economic conditions. For examples, we should promote reform of the political system, separate government administration from party leadership, and separate government administration from enterprise management. We should gradually take a relaxed attitude toward the market of the means of production and that of the factors of production, as well as rationalize the pricing system, in order to provide a reliable environment for making decisions. We should perfect the system for indirect macroeconomic control. In particular, we should perfect the economic legislation system and the judicial system. Moreover, in order to give play to the role of readjustment by law, we should promptly formulate laws and regulations such as the law on stock companies and the law on the control of stock market.

PROVINCIAL

HENAN RIBAO Carries 1987 Provincial Statistics

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[Communique of the Henan Provincial Statistics Bureau on the Statistics for the National Economic and Social Development in 1987"]

[Text] In 1987, the province's 12-month gross national product (Note 1: Gross national product refers to the increased value of both the material productive and

non-productive sectors and the net income from other parts of the country, not including the value of immediately consumed products and labor.) amounted to 59.9 billion yuan, up 14.8 percent over 1986; its national income came to 51 billion yuan, up 15.7 percent; and its industrial and agricultural output value totaled 91.8 billion yuan, up 18.1 percent. The major problems in the development of the national economy were strained supply of some commodities and excessively big rises in the prices of major non-staple products and of agricultural means of production.

I. Agriculture

Total agricultural output value in 1987 came to 32.362 billion yuan, an increase of 18.4 percent over 1986, in which the output value of crop cultivation amounted to 22.974 billion yuan, an 18.6 percent rise, and that of forestry, animal husbandry, sideline occupation, and fishery was 9.388 billion yuan, a gain of 17.8 percent; There were relatively big increases in the output of major farm products compared with the previous year. The output of grain and oil-bearing crops hit an all-time high. The downward trend in cotton output over the past 2 years was halted.

The output of major agricultural products was as follows:

	1987	Increase Over 1986 (r)
Grain	29,484,100 tons	15.8
Summer Grain	16,582,600 tons	4.0
Crops		
Autumn Grain	12,901,500 tons	35.7
Crops		
Cotton	570,000 tons	43.0
Oil-Bearing Crops	1,365,700 tons	38.0
Tobacco	402,500 tons	38.8
Hemp		
119,200 tons		
8.6		
Vegetables	7,799,500 tons	16.5
Fruit	778,400 tons	27.1

The afforested land in 1987 was 2,476,000 mu, a 10.2 percent rise over the previous year. The tree-survival rate was raised.

In animal husbandry production, the momentum of increase in the number of large animals over the last 9 years running was maintained. The number of large animals topped the 10 million mark. The number of goats and sheep picked up by a wide margin. The year-end number of live pigs in 1987 declined compared with the preceeding year but it began to pick up in the second half of the year.

The output of major animal by-products and livestock headage were as follows:

	1987	Increase Over 1986 (r)
Meat	866,300 tons	9.1
Milk	64,500 tons	17.5
Wool	5,787 tons	9.8
Pigs Slaughtered	8,552,000 head	0.3
Large Animals at year-end	10,008,200 head	4.5
Live Pigs at year-end	14,047,200 head	-8.7
Sheep at year-end	9,984,900 head	28.4

Fishery production developed fairly rapidly. The output of aquatic products amounted to 76,200 tons, an increase of 15.3 percent over the previous year.

Input in agriculture increased and production conditions were considerably improved. The effectively irrigated area in 1987 was 48.75 million mu, 560,000 mu more than the preceeding year. At the end of 1987, the aggregate power used by the province's farm machinery reached 18.659 billion watts, up 7.4 percent from the previous year.

The province had 527,700 small-sized and hand-held tractors, up 17.6 percent and 42,000 trucks for farm use, up 9.4 percent. The power used by drainage and irrigation equipment totaled 5.408 billion watts, up 1.5 percent over 1986. A total of 6,373,700 tons were applied, a drop of 5.9 percent compared with the previous year. To total consumption of electricity in rural areas was 3.729 billion kwh, up 12 percent. However, the modernization level of agriculture was relatively low and agriculture's ability to resist natural disasters was still poor.

The rural economy kept on expanding and there was a new change in the structure of production. In 1987, the total social output value (Note 2: This includes the total output value of agriculture and of collectively and individually owned rural industries, construction, transport, and commerce.) was 59.155 billion yuan, a 22.8 percent increase over the previous year. Of that sum, the total output value of rural industries, construction, transport, and commerce accounted for 26.793 billion yuan, 27.7 percent higher than the previous year, bringing its proportion in the total social output value up from 43.6 percent in 1986 to 45.3 percent.

II. Industry

The industrial output value for 1987 reached 59.464 billion yuan, an increase of 17.9 percent over a year ago or 45.675 billion yuan if the output value of industries run by units at and under the village level is excluded, a 14.1 percent rise. In the total industrial output value, the output value of the state-owned sector went up by 13.5 percent; the collective sector by 18.9 percent; the private sector by 53.4 percent; and that of industries run by the

other sectors of the economy rose by 70.9 percent. In 1987, the output value of light industry was 27.686 billion yuan, up 16.4 percent from the previous year and that of heavy industry 31.778 billion yuan, up 19.4 percent.

The output of major industrial products was as follows:

	1987	Increase Over 1986 (r)
Cotton Yarn	284,600 tons	9.4
Cloth	1,067,000,000 meters	5.9
Woollen Fabrics	8,600,000 meters	-6.6
Chemical Fiber	47,400 tons	21.6
Machine-Made Paper and Paper-board	1,024,800 tons	19.7
Cigarettes	3,254,900 cases	-1.1
Drinks and Wines	515,100 tons	15.2
Bicycles	1,911,400	9.9
TV Sets	100,100	-2.9
Tape Recorders	215,700	61.7
Electric Fans	359,400	6.6
Household Washing Machines	3,970	-45.7
Household Refrigerators	74,900	200.0
Raw Coal	80,622,000 tons	1.4
Crude Oil	9,320,400 tons	5.8
Natural Gas	1,033,000,000 cubic meters	18.9
Electricity	25.933 billion kwh	11.9
Pig Iron	1,395,000 tons	12.0
Steel	1,180,900 tons	13.6
Cement	10,012,600 tons	10.6
Plate Glass	7,691,600 standard cases	15.5
Sulphuric Acid	277,500 tons	64.6
Soda Ash	91,100 tons	12.9
Chemical Fertilizers	1,116,200 tons	39.0
Synthetic Ammonia	1,374,300 tons	35.6
Chemical Insecticides	1,844 tons	0.7
Large, Medium-sized Tractors	6,237	33.1
Small-sized Tractors	106,200	54.7

Reforms in industrial enterprises deepened steadily. New advances were made in lateral economic associations. According to initial statistics, by the end of 1987, 71.8 percent of state-owned industrial enterprises had implemented the director responsibility system; 81.8 percent of large and medium-sized state-owned industrial enterprises instituted various forms of the contracted management responsibility system; and 51 percent of small state-owned industrial enterprises had been put under management by sectors other than the public one.

A total of 449 enterprises in the province have established relations of economic and technological cooperation with enterprises in more than 20 provinces, municipalities, and autonomous regions throughout the nation and there are 159 economic associations of various forms in the province.

Enterprises' operation mechanisms were strengthened and their economic results were noticeably improved. Industrial production consumption declined and quality improved. Of the 64 raw and semifinished materials, fuel, and energy consumption targets listed in the assessment plan, 42 were lower than or remained the same as those in the previous year. The energy consumed by industries run by units at and above the township level to produce an output value of 10,000 yuan dropped from 6.57 tons in 1986 to 6.4 tons, a reduction of 2.6 percent. The province's steady improvement rate of industrial product quality was 86.2 percent and the percentage of top-quality product, 13.4 percent. The total industrial output value and sale income of state-owned enterprises throughout the province increased by 15.4 percent and 23.1 percent respectively over 1986. The profits they turned over to the state as tax went up by 21.7 percent. The turnover period of working funds was cut by 9 days. The rate of profits tax on capital rose by 1.6 percentage point and that on value by 1 percentage point. The number of money-losing enterprises decreased by 59; losses among them dropped by 30.6 percent; and the number of enterprises that managed to make up deficits in operation increased by 19.9 percent.

III. Investment in Fixed Assets and Construction

Society's investment in fixed assets totaled 16.307 billion yuan, up 11.1 percent over the previous year, which was lower than last year's 15.7 percent increase rate. Of the total, 8.473 billion yuan went to units under the system of ownership by the whole people, up 14 percent; 1.667 billion yuan to collectively owned units, up 2.1 percent; and 6.167 billion yuan to individuals, up 9.9 percent.

The investment structure was continuously improved. Units under the system of ownership by the whole people invested 5.974 billion yuan in capital construction, an increase of 7.3 percent over the previous year. Of that sum, 2.649 billion yuan went into productive construction, up 8.4 percent over the previous year and the proportion of investment in this sector continued to increase and it rose by 66.7 percent, and 1.325 billion yuan went into nonproductive construction, up 5.2 percent. A total of 1.777 billion yuan was invested in 34 large and medium-sized projects all over the province, constituting 44.7 percent of the province's total investment in capital construction and 879 million yuan was put into 7 key development projects (not including transprovincial projects) organized by the province and given rational construction schedules. By the end of 1987, 10 large and medium-sized projects had been completed and put into operation wholly or in an item-by-item basis. The newly added fixed assets in capital construction throughout the year amounted to 2.607 billion yuan. Newly added production capacities in capital construction projects include 350,000 tons of coal, 1.5 million tons of petroleum, 3,000 tons of synthetic ammonia, 49,600 tons of iron, 174,500 square

meters of commercial and catering network spaces, and a 2,500-meter-long large-sized civil aviation airport runway.

In 1987, units under the system of ownership by the whole people invested 2.82 billion yuan in updating equipment, 26.2 percent higher than the previous year. Of this amount, 1.039 billion yuan was invested in boosting production, up 47.6 percent; 374 million yuan in increasing the variety of products, up 5.9 percent; 150 million yuan in raising product quality, up 45.6 percent; and 75 million yuan in economizing use of energy, up 13.6 percent. In 1987, 1,848 projects involved in equipment upgrading and innovation were completed and commissioned, thus creating an additional 2.013 billion yuan in fixed assets.

New advances were made in the reform of the building industrial management system. Of the province's 3,653 state-owned construction enterprises which were undertaking construction projects, 3,101 had implemented different forms of the contracted management responsibility system, comprising 84.9 percent and covering a construction area of 5,090,000 square meters, constituting 84.1 percent of the total area under construction. Of this figure, 407 projects, covering a construction area of 1,040,000 square meters and making up 17.2 percent of the total area under construction, were contracted through bidding.

Economic results of the construction sector were improved. The output value of the building industry created by units under the system of ownership by the whole people went up by 5.4 percent from the preceeding year, its per-capital productivity by 5.5 percent, and the percentage of completed projects up to high standard was 28.5 percent.

Tangible results were achieved in the work of prospecting geological resources. In 1987, a total of 18 mineral bases were discovered. Reserves of 17 minerals, including coal, gold, silver, aluminum, and nonmetallic minerals for metallurgical and building material use, were verified. They included 227 million tons of coal, 58.52 million tons of fluorine, and 8.24 million tons of refractory clay. Geological service kept on expanding in scope. Fairly satisfactory social and economic benefits were achieved in such areas as urban construction, land planning, development of economic zones, prospecting of projects, and environmental protection. A total of 208,200 meters of tunneling was completed in 1987.

IV. Transport, Post and Telecommunications

Transport and communications departments implemented various forms of the economic responsibility system, such as contract management and leasing, with the center on reform, and tapped internal potential, thus boosting the carrying capacity and the volumes of passengers and cargo handled.

The volumes of passengers and cargo handled by all transport means were as follows:

	1987 (million)	Increase Over 1986 (r)
Cargo	102,081.1 ton/km	15.8
Of which		
Central Railway	87,631.4 ton/km	13.5
Local Railway	462.7 ton/km	-9.6
Highway	13,383 ton/km	34.2
Waterway	604 ton/km	19.6
Passengers	40,006.3 person/km	11.7
Of which		
Central Railway	24,773.3 person/km	9.2
Local Railway	128 person/km	-22.9
Highway	15,075 person/km	16.6
Waterway	30 person/km	-6.2

Post and telecommunications made even greater progress. Business transacted by these departments in 1987 totaled 147 million yuan, up 22.5 percent from the previous year. The total length of postal routes and mail delivery lines increased by 5.2 percent, to 240,700 kilometers. The province had 2,440 long-distance telephone lines, up 26.5 percent over the previous year and 146,000 inter-city telephone exchanges, up 16.1 percent. The number of telephone users at year-end in urban areas came to 94,000, an increase of 14.9 percent over the preceeding year.

V. Domestic Commerce

Commodity supplies on the market grew steadily. The total volume of commodities entering the market through various channels amounted to 36.976 billion yuan, 18.9 percent more than the previous year. Of this total, the volume of manufactured goods accounted for 21.624 billion yuan, up 11.6 percent and that of farm and sideline products came to 15.216 billion yuan, up 31.1 percent.

The market, urban and rural, was brisk and prosperous. In 1987, the retail sale volume of society's commodities totaled 27.849 billion yuan, an increase of 15 percent over 1986 or a real gain of 6.4 percent after price rises were factored in. Of the total retail sale volume of society's commodities, the retail sale volume of consumer goods accounted for 22.528 billion yuan, up 13.6 percent, of which, the volume of consumer goods sold to residents was 20.148 billion yuan, up 13.8 percent and that sold to social groups 2.38 billion yuan, up 12.2 percent. Total retail sale volume of agricultural capital goods came to 5.321 billion yuan, up 21.4 percent.

Retail sales of commodities in the various sectors of the economy increased by a fairly big margin. Retail sales in the state-owned sector grew by 16.2 percent; in the collective sector, by 12.7 percent; in the jointly public and private-owned sector, by 1.4 percent; and in the private sector, by 17.5 percent; and a 15.5 rise was

registered in transactions between farmers and non-agricultural people. Besides pork, sugar, vegetables, and some brand-name consumer durable goods which were in somewhat short supply, the availability of most commodities vital to the national economy and people's livelihood increased steadily. The retail sale of grain grew up by 18.5 percent; edible oil by 40.5 percent; fresh eggs by 11.5 percent; wines by 32.5 percent; clothes by 13.8 percent; electric fans by 4.4 percent; washing machines by 21.6 percent; and refrigerators by 41.1 percent. Of the retail sales of production means for agricultural, the sale of chemical fertilizers (calculated in terms of standard ton) increased by 0.9 percent; diesel oil by 23.2 percent; tractors by 85.3 percent; small-sized tractors by 68.9 percent; and power machinery for farm use by 19.7 percent. However, the supply of some agricultural means of production was still very strained and far from meeting the needs of agricultural development. Reform of the commercial structure continued to develop in depth. By the end of 1987, 387 large state-owned enterprises had introduced various forms of the contracted management responsibility system, comprising 42.3 percent of the province's total number of such enterprises; 5,446 small state-owned enterprises were handed over to collectives or collective ownership or leased to individuals, constituting 66.4 percent of the province's total; and 96.8 percent of enterprises in the supply and marketing sector had implemented different forms of the internal contracted management responsibility system. Trade fairs in urban and rural areas were very brisk. The number of such fairs rose to 4,480, 284 more than the previous year and their transactions amounted to 7.673 billion yuan, an increase of 19.5 percent. By the end of 1987, lateral economic associations numbered 156 and their transactions throughout the year came to 102 million yuan, a 14 percent rise.

The commercial structural reform promoted the improvement of economic results. In 1987, on the part of state-owned commerce and supply and marketing cooperatives, expenses for every 100-yuan in sales dropped by 5.2 percent compared with the previous year and profits and taxes grew by 54.5 percent. The time for turnover of working funds was shortened by 4 days.

With the reform of the materials management system, the scope of regulation by market mechanisms of capital goods continued to expand, entailing a continuous drop in the proportion of materials distributed according to state plan. The proportion of rolled steel distributed under state plan dropped to 34.4 percent from 41.7 percent in 1986; of cement, to 33.7 percent from 35.3 percent; and of timber, to 62.7 percent from 67.8 percent. Purchases of materials departments totaled 4.8 billion yuan, up 30.1 percent over 1986 and their sales amounted to 4.67 billion, up 24.7 percent. At the end of 1987, the province had 14 centers for trading in means of production, 3 more than the previous year and their sales amounted to 465 million yuan, a growth of 29.2 percent.

Prices rose considerably. In 1987, society's retail price index rose on the average by 8.1 percent over 1986. The

retail price index increased by 8 percent in urban areas and by 8.2 percent in rural areas. The retail price of foodstuffs went up by 8.9 percent and in this category, the price of vegetables rose by 12.1 percent, of meat, poultry, and eggs, by 20.6 percent, and of aquatic products, by 15.1 percent. The retail price of clothes increased by 3.8 percent; household goods, by 5.7 percent; cultural and recreation goods, by 2.2 percent; and agricultural means of production, by 14.4 percent.

The cost of living index for residents went up by 6.3 percent in 1987, of which the increase was 7.8 percent in urban areas and 5.3 percent in rural areas.

VI. Foreign Trade and Tourism

Trade with foreign countries continued to expand and the export sector increased by a wide margin. The total volume of goods purchased for export in 1987 totaled 2.92 billion yuan, a growth of 31.3 percent over the previous year.

In foreign trade, total volume of imports and exports amounted to \$704 million, of which the volume of exports rose by 4.6 percent, to \$654 million and that of imports through the province's own channels was up 51.7 percent, to \$49.48 million. In the total volume of exports, the volume of manufactured goods grew by 62.9 percent and their proportion increased from 62 percent in 1986 to 69.9 percent and that of agricultural and sideline products rose by 14.7 percent and the proportion declined from 38 percent in the preceeding year to 30.1 percent.

Fresh advances were made in using foreign capital. In 1987, the province signed 55 contracts on using foreign capital, involving an investment of \$130.66 million, an increase of 40.4 percent over 1986 and \$28.68 million in foreign investment was actually used, a drop of 44.2 percent compared with the previous year. Of this amount, a greater portion was extended as loan to the Pingtingshan Curtain Cloth Factory. The amount of foreign investment actually used increased by 150 percent if this factor was excluded, of which, \$14.25 million was used as loans of one kind or another, an increase of 980 percent. The province absorbed \$4,670,000 in direct foreign investment, a decline of 22.9 percent and \$9,760,000 in commodity credit, an rise of 130 percent.

The tourist industry made rapid progress. In 1987, the province received 87,100 tourists from 27 countries and regions who came for travelling, visiting, and other exchange activities, 1.5 percent more than the previous year. After converted into renminbi, the income of foreign exchange from tourism was 12.24 million yuan, a gain of 11.7 percent over the preceeding year.

VII. Finance

In 1987, the province's local budgeted financial revenues totaled 6.295 billion yuan, 2.7 percent more than the annual budget or 14.6 percent higher than the previous year, of which, the income from industrial and commercial tax rose by 12.1 percent and its financial expenditures amounted to 6.505 billion, 6.9 percent less than the annual budget or a decline of 6 percent compared with the previous year.

Money markets were brisk. At the end of 1987, the balance of various bank savings amounted to 27.338 billion yuan, 6.781 billion yuan more than in the beginning of the year or an increase of 32.9 percent over the previous year. The balance of various credits was 39.924 billion yuan, 4.699 billion yuan more than in the beginning of the year or an increase of 13.3 percent. The balance of credits surpassing savings dropped by 2.01 billion yuan compared with the end of 1986. Banks put 2.6 billion in cash into circulation, 440 million more than in the previous year.

VIII. Science, Technology, Education, and Culture

Science and technology developed vigorously. At the end of 1987, there were 582,300 scientific and technological personnel in units under the system of ownership by the whole people, 38,800 more than the previous year. Among them, 303,400 were in the natural sciences, up 18,000 over the preceding year and 278,900 in the social sciences, up 20,800. Throughout the year, 39 inventions and technical advances won state prizes. The province sent 799 applications to the state for patent rights and 266 were granted patent rights. A total of 1,336 items were reported to the provincial authorities for registration as provincial-level scientific research results. The technology market was still growing. By the end of 1987, the province had 582 technological development service agencies of various types and their transactions of the year amounted to 81.65 million yuan. The "spark plan" produced a number of fresh scientific research results which brought gratifying economic results to the vast rural areas, in particular, the poverty-stricken regions, in their efforts to develop the economy and to shake poverty to become prosperous.

To actively cooperate with economic construction, meteorological and cartographical departments provided a great deal of socially and economically helpful data and information.

Continued progress was made in education. In 1987, the province enrolled 540 new postgraduates. A total of 425 postgraduates completed their degrees, 321 more than in the preceding year. There were 75,700 students studying in institutions of higher learning, 700 more than the previous year. Graduates from such institutions numbered 25,300, 7,800 more than the preceding year. Secondary vocational schools had an enrollment of 106,700 students, 9,400 more than the preceding year

and 31,900 students graduated from such schools, up 7,400. There were 39,100 students studying in skilled worker schools, 7,100 more than in the previous year. Graduates from such schools numbered 9,800, up 200. There were 116,300 students in agricultural vocational schools, 2,900 fewer than in the previous year. Graduates from such schools numbered 31,100, up 5,900. There were 3,735,100 students studying in ordinary middle schools, up 65,500; 86,000 students studying in the institutions of adult higher education of various types, up 6,100; and 101,300 students studying in secondary adult schools, up 6,200.

Elementary education continued to develop. There were 9,977,500 pupils studying in primary schools throughout the province. The attendance rate of school-age children was 97.5 percent. By the end of 1987, 83 counties had made primary education universal. There were 3,676 kindergartens all over the province, with an enrollment of 989,000 pupils, 130,000 more than in the preceding year. New advances were made in education for the blind, deaf-mute, and mentally retarded children.

The year 1987 witnessed the production of 24 feature films and television plays and the distribution of 187 new films (lengthy films) of various kinds. In the province there were 14,964 movie-projection units of one kind or another, 252 performing arts troupes, 224 mass arts centers or cultural centers, 119 public libraries, 39 museums, 6 broadcasting stations, 12 radio transmitting and relay stations, 4 television stations, and 20 television transmitting and relay stations, each with a capacity of 1,000 watts or more. During the year, 1,447 million newspapers, 95 million copies of magazines of various kinds, and 344 million books were published.

IX. Public Health and Sports

At the end of 1987, the province had 8,833 hospitals, sanatoriums, clinics, and other health establishments and 154,200 hospital beds, 14,300 more than the previous year. Professional health workers numbered 204,400, 2,900 more than the previous year. The total included 85,000 doctors and 30,300 head nurses [hu shi 6233 1597] and nurses. Fresh advances were made in the patriotic health campaign and maternity and child hygiene work and in the work of preventing and curing diseases.

In 1987, in world tournaments, the province's sportsmen broke or equalled world records on 4 occasions and broke 6 Asian records. They also broke 3 national records and won 33 gold medals in world tournaments. In the Sixth National Games, they jumped from No.24 to No.12 in the team total points rankings and the province's men's football team entered quarter-finals. Hence, there were bright prospects for the vigorous development of the province's sports.

X. Living Standards

The living standards of the urban and rural population continued to improve on the basis of developed production. However, because of considerable price hikes, the growth of residents' income slowed down and the real standard of living of some low-income families dropped.

In 1987, 218,200 job-awaiting people were given jobs. The province had 6,445,100 employees at the end of the year, 266,000 more than the previous year. Of them, workers and staff members employed under a contract scheme by units under the system of ownership by the whole people numbered 433,000, up 164,300. Self-employed workers in the cities and towns totaled 406,600, 94,300 more than at the end of 1986. Total wages of employees in 1987 came to 7.769 billion yuan, up 13.6 percent over 1986 and the average per-capita income was 1,238 yuan, up 8.7 percent or 99 yuan more than the previous year.

According to a sample survey, the average per-capita income of city dwellers available for living spending was 744 yuan, an increase of 11.5 percent over the previous year or a real gain of 3.4 percent after price hikes were factored in. The per-capita net income of the peasants was 376 yuan, a 13.5 percent rise over the previous year or a real increase of 7.5 percent after price hikes were included. However, the average per-capita net income of 9.5 percent of the total peasant households was under 200 yuan. The savings deposits of urban and rural population increased by a wide margin. At the end of 1987, the residents' bank savings amounted to 16.8 billion yuan, up 46 percent or 5.3 billion yuan more than at the beginning of the year. Of this, the bank savings of city dwellers was 10.4 billion yuan, up 49.2 percent and that of the peasants, 6.4 billion yuan, up 41.1 percent.

Housing for both urban and rural dwellers further improved. In 1987, 9,090,000 square meters of housing space were built in rural areas and the peasants built a housing space of 84.39 million square meters.

Social welfare services developed as reform progressed. In 1987, the province had 2,662 social welfare establishments of various kinds providing for 28,700 people. Urban and rural collectives provided for 172,900 elderly, disabled, and orphans.

XI. Population

The province's natural population growth rate continued to increase. According to the calculations based on a sample survey of one percent of the population, in 1987, the province's birth rate was 21.8 per thousand; its mortality rate, 6.5 per thousand; and its natural growth rate rose from 13.2 per thousand in 1986 to 15.3 per thousand. At the end of 1987, the province had 79.69 million people, 1,210,000 more than the 1986 year-end figure.

Note: The gross national product, national income, and the total output value in various fields listed in this communique are calculated in terms of 1986 prices and the rates of growth are calculated according to comparable prices.

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[Article by Li Changchun, governor of Liaoning Province: "A New Road Leading Large and Medium-sized Enterprises to the Great International Economic Circle on One Plant, Two Systems"]

[Text] A major characteristic of Liaoning's economy is its great number of large and medium-sized enterprises and substantial economic and technological strength. Through 37 years of construction and development, Liaoning has become a province with the greatest number of large and medium-sized enterprises in the country. Although the number of these large and medium-sized enterprises amounts to only 3 percent of the total number of the industrial enterprises of the province, their fixed assets, output value, profits, and the profits and taxes turned over to the state occupy an extremely important position in the province's industry. By 1986, the original value of the fixed assets of the large and medium-sized enterprises had amounted to 78.7 percent of the fixed assets of the industrial enterprises throughout the province, the profits they earned amounted to 75.8 percent, and the profits and taxes they turned over to the state amounted to 84 percent. This showed that these large and medium-sized enterprises are indeed the pillar of Liaoning's economy, and the "locomotive" of its economic development.

We should remain clear-headed and note that Liaoning also suffers from an inherent shortage, and lags behind others conspicuously in ideology and work. Unlike Guangdong and Fujian. Our province does not have a great number of overseas Chinese, a great amount of funds from overseas Chinese, special geographical positions, a large number of township enterprises with substantial economic strength, and other advantages. We should rely on our own advantages, in particular our great number of large and medium-sized enterprises, which play a decisive role in the economic life of the state, and of which a considerable number are "file leaders" and "the state representative teams." As long as we, on the one hand, pay attention to township enterprises, which have fairly great vitality, and rely on our advantage of having abundant natural resources, good-quality laborers, and low prices to actively develop processing and assembling with materials and specifications provided by foreign firms, and compensation trade; and on the other hand, adopt the "one plant, two systems" and other measures combining reform and opening up to conscientiously push a large number of large and medium-sized enterprises forward to the forefront of the world market, and blaze a new trail for large

and medium-sized enterprises to participate in the great international circle, the Liaodong peninsula will have bright prospects for opening to the outside world.

Implementation of the "one plant, two systems" measure is a new road leading large and medium-sized enterprises to the great international economic circle.

For large and medium-sized enterprises to march toward the great international circle, the key is that they should have products competitive in the world market. Otherwise, we can only import and not export, and will not be able to join the circle. Due to the influence of the long-standing rigid economic pattern and the binding of outdated traditional ideas, Liaoning's large and medium-sized enterprises lack vitality and vigor, and the strength for sustained growth because their management, equipment and production methods are backward, and the properties of their products are aging. To change such a situation which is incompatible with the need to march toward the great international circle, we should quicken our pace in opening to the outside world, utilizing foreign capital, importing technology, and renovating old enterprises. And to quicken the pace in utilizing foreign capital and importing technology, enterprises should have sufficient foreign exchange and supporting funds. Judging from the current situation, our national capacity is limited, and the proportion of profits that enterprises can retain for their own use is not large. In other words, according to the old methods, both the state and enterprises are unable to allocate more funds to carry out such work as foreign capital utilization and technology import. What should the enterprises do in such a situation? The experiences of the Liaoyang Printing and Dyeing Mill, the Shenyang Auxiliary Plant and others showed that implementation of the "one plant, two systems" measure, and adoption of more flexible, realistic and effective methods to use foreign capital, and import advanced managerial expertise and production techniques are a feasible and effective new road leading to the great international circle.

What is the "one plant, two systems" measure? It means that a large or medium-sized enterprise institutes both the state ownership system (or the collective ownership of the working masses) and the Chinese-foreign joint venture ownership system; and implements both our common managerial pattern and the management exercised by foreign firms according to normal international practice. In short, the "one plant, two systems" measure allows an enterprise to implement two ownership systems and two managerial systems.

As has been proven in practice, through implementation of the "one plant, two systems" measure, foreign firms have brought in not only funds but also technology, managerial expertise, strict and meticulous workstyles, and commodity and economic information of the marketing network and the world market, thus enabling us to

achieve faster results with less investment. By following this new road the use of foreign capital and import technology has the following advantages:

First, we can save a great amount of investment, and expedite opening to the outside world on the basis of stabilizing the economy. Comrade Ziyang recently pointed out: "We never mean that we must not borrow money from abroad, but we must never place emphasis on borrowing money from abroad. Judging from the previous actual situation, borrowing foreign loans to establish enterprises by ourselves, especially large enterprises, could not yield good results in most cases, and the long construction period, the failure to sell our products in the world market, and the poor capacity to repay the loans often make us in debt." At present, in particular, how to ensure the stability of the national economy while deepening reform and expanding opening up without creating an impact on financial credit is an important issue. The "one plant, two systems" measure is, in reality, a new method to directly attract foreign investment. We may use the existing workshops without increasing more supporting funds, and use the investment made by foreign firms through advanced technology and equipment, and key technological software to realize joint investment and cooperative management with foreign firms, thus effectively solving our problem of fund shortages and it is conducive to deepening the reform within enterprises, and fundamentally improve the managerial level of enterprises. The great number of our large and medium-sized enterprises have strengthened the central position and central role of their directors (managers) in enterprises, and changed to a certain extent the "same big pot" formed over many years through the reforms within themselves, but they have not radically changed the phenomena of overstaffing, low labor efficiency and lax management and systems, and are far from meeting the needs in world competition. Due to the shackle of habitual forces, they fail to achieve great progress in the reform of the labor and personnel system, cadre system and distribution system, that require "highly difficult techniques." If enterprises rely on reforms within themselves alone to eliminate the obstacles and difficulties they have met in deepening enterprise reform, their progress will be slow, and they will lose the current international opportunity. At present it is necessary for us to depend on outside forces to pound outdated ideas and backward managerial patterns to facilitate the replacement of the old system by the new. Implementation of the "one plant, two systems" measure within an enterprise is an effective way to realize this idea. In an enterprise, a "corner" (a branch plant or a workshop), a "category" (a kind of product) or a "line" (a production line) may be set aside where foreign firms can invest or carry out cooperative management, or which foreign firms can be invited to manage. In this way, the "one plant, two systems" measure is implemented to introduce the managerial pattern which is advanced in the world, and which suits the needs in world competition to the enterprise, the area which is set aside becomes a model, and this model is

used to influence and prevail throughout the plant. Allowing foreign firms to exercise direct management is the key to implementing the "one plant, two systems" measure. Adopting this measure will have a radical impact on backward managerial patterns and outworn ideas, and greatly raise the managerial level of enterprises.

Third, it is conducive to thoroughly conducting technological transformation and equipment renewal among enterprises. Through carrying out the "one plant, two systems" measure, foreign firms are allowed to become partners and shareholders of our enterprises by bringing in technological software and equipment, and to engage themselves in management and administration to greatly upgrade enterprises technological level and product quality. Although problems concerning backward technology and outdated equipment exist among some large and medium-sized enterprises, it does not mean that all technologies are backward or all equipment is unsuitable to production demands. In reality, only our key technologies and equipment lag far behind when compared with the world's advanced ones. After implementing the "one plant, two systems" measure, we are able to bring in a small number of key equipment and technologies to further upgrade production methods and product quality to a new level. Through (running joint ventures,) the measure for bringing in technology can be changed from nonrenewal to continuity.

Fourth, it is conducive to training cadres and upgrading the quality of managerial talents. The quality of our enterprises' technicians and managerial talents is not high at present. However, the managerial talents of foreign-funded enterprises are generally selected through competition. So, their skills are comparatively comprehensive. In general, their technicians have mastered practical operation skills. Judging from their style of work, managerial personnel of foreign firms have paid strict and careful attention to enforcing rules and systems and have placed stress on actual effect. Their managerial methods are flexible. With a concept of time, they always try every possible means to upgrade work efficiency. The outdated work styles of ours, such as assuming no responsibility, being perfunctory, stressing no standards, and even illegally using both soft and hard tactics, should actually be attacked by the foreign businessmen's solid styles of work. Through implementing the "one plant, two systems" measure, and by seizing the change that foreign businessmen engage themselves in enterprise management, we should honestly learn from foreign businessmen in an effort to fundamentally upgrade the quality of our vast managerial personnel.

Fifth, it is conducive to exporting products and increasing foreign exchange. So far, most of our enterprises have a long way to go to enter the international market. The major reasons are as follows: Enterprises are not familiar with the international market situation. Without unimpeded channels, some enterprises know neither what the

international market needs nor how to make their products suit the demands of the international market. In short, some of our large and medium-sized enterprises fail to advance toward the front line of the international market or to master the skills to deal with business with foreigners. To make enterprises advance toward the international market as soon as possible, we must think of methods to shorten the distance between enterprises and the international market. Implementing the "one plant, two systems" measure, inviting foreign businessmen to act as managers, and working in cooperation with foreign firms to produce products to meet the demands of the international market are the best methods. The quotations on the international market will naturally be introduced to the plants if foreign businessmen are invited. If production is organized according to the requirements set forth by foreign firms, our products will certainly be readily marketable on the international market. If products are distributed with the assistance of foreign firms, there will certainly be market channels. In short, import and export are specific indicators for advancing toward the front line of the international market. Through implementing the "one plant, two systems" measure, both foreign firms and our enterprises will show equal concern for product quality and export. This has fundamentally ensured the creation of foreign exchange through exports.

To implement the "one plant, two systems" measure, we must perfect the necessary supporting reforms within enterprises.

No matter which forms an enterprise adopts to implement the "one plant, two systems" measures, the form of "one plant, one corner," the form of "one plant, one category," or the form of "one plant, one line;" and no matter which structure an enterprise introduces, the two ownership systems or the two managerial systems, the relationship between the enterprise and foreign corporations must thoroughly be an economic relationship. Those workshops which introduce the two ownership systems should exercise independent accounting; and those which introduce the two managerial systems should subject their management and technology to contracts, and decide on everything in line with the contract. All in all, foreign corporations will not follow the practice of "eating from a common big pot." To clarify the relationship between our enterprises and foreign corporations through economic methods, our enterprises must perfect their necessary supporting reforms within themselves. This is the prerequisite for implementing the "one plant, two systems" measure. The necessary supporting reforms within enterprises include the following:

First, we should have appropriate methods to settle surplus workers and staff members. The overstaffing and low efficiency are common failings of enterprises. After we designate one workshop to a foreign firm for management, this foreign firm will surely conduct careful

calculation and strict budgeting in the issue of employment, and will consider labor costs in line with international practice so that it can employ working personnel in a reasonable way. It will not do to let workers "go on working in spite of illness." Then, how should we arrange for surplus workers who have been cut from the payroll after examination and screening? Our enterprises must be determined to find a new way to make appropriate arrangements for surplus workers. This is a key to the question of whether or not an enterprise can implement the "one plant, two systems" measure. Various methods should be adopted to enable each surplus worker to display his ability and to provide each surplus worker with a proper job. The retirement system should be strictly implemented so that all workers and staff members reaching retirement age will retreat from their posts. As for those young workers who are unsuitable for the work of their current jobs but have great potential, professional training courses should be provided for them to improve their production skills. Then, such workers should be put on work posts in an appropriate time. Labor service markets may be established within enterprises, and a portion of surplus workers should be allowed to seek appropriate jobs on these labor service markets in line with their respective conditions. Labor departments should include these surplus workers' period of working for the labor service market into their service length for enterprises. Enterprises and the society should give great support to those surplus workers who have conditions and are willing to seek jobs by themselves.

Second, we should reform the cadre system, and appoint people on their merits. After implementing the "one plant, two systems" measures, enterprises will be faced with a practical problem, that is, how to streamline the ranks of cadres. Their ranks of cadres must be more compact and efficient, and their managerial personnel must be expert in a special field of study and have some other skills. Enterprises should conduct reform of their original cadre system in line with the demands. The responsibility system and the life tenure system should be replaced with the open recruitment system and the fixed tenure system. Those cadres who are incompetent at their jobs should be resolutely cut from their posts, and be transferred to grassroots units. By implementing the "one plant, two systems" measure we mean using a completely new managerial method to run enterprises. If we still make do with cadres and workers, still stick to the old managerial methods, and compel foreign firms to submit to our outmoded systems, we will be unable to run enterprises well, even though our equipment is new. Then, the open policy will become empty talk.

Third, we should perfect the system of distribution according to work. After enterprises implement the "one plant, two systems" measures, foreign firms will use new methods to organize production and operation; and, as a result, labor productivity will be enhanced greatly, and the amount of labor made by workers and managerial personnel will certainly increase. Therefore, at the plant

branches operated by foreign firms, we must carry out corresponding reform of their wage system. The labor cost should be calculated in a reasonable manner in line with the situation of production development and with the level of profits. Workers and staff members of the plant branches (workshops) which implement the "one plant, two systems" measures should be allowed to become well-off ahead of others. Such workers and staff members should be permitted to receive more wages than those of ordinary branches or workshops, and their wages may fluctuate along with efficiency without any ceiling or lower limit. We should also permit foreign firms to keep a certain amount of bonus funds so that they can give awards at any time to their workers and managerial personnel who have made achievements. Those workers and staff members who have received relatively high wages should be encouraged to buy shares of enterprises, participate in housing savings deposit, and join the old-age pension and medical insurance programs, so that the "hidden subsidies" will be changed to "open subsidies."

To implement the "one plant, two systems" measure, we should further improve the social investment climate.

Enterprises are an important component of society, which in turn is the stage for enterprise activities. Implementation of the "one plant, two systems" measure in an enterprise requires a fairly good social investment climate. Governments at various levels, and social organizations should strengthen their function of rendering service to the production and management of enterprises, and improve the social service and social welfare systems to guarantee the normal progress of the production and management activities of enterprises.

First, party and stage leading organs at various levels should actively guide the masses to eliminate the influence of the "leftist" rigid economic pattern and the outdated traditional ideas of small-scale production and closed economic pattern. They should educate the masses to correctly understand our national situation with the theory on the initial stage of socialism, and treat the brand-new "one plant, two systems" measure with the brand-new idea of the commodity economy. Implementing the "one plant, two systems" measure does not mean to deviate from the socialist orbit. Instead, it is meant to deepen reform, accelerate opening up, and greatly develop socialist modernization. When implementing the "one plant, two systems" measure, the means of production of the Chinese side still belongs to the state, the staff members and workers of the enterprises remain to be the masters of the state, and the management activities of enterprises are carried out with the guidance of the major policies of the party and the state, thus not violating state policies and laws. Therefore, implementation of the "one plant, two systems" measure has not changed the socialist nature based on the public ownership of the means of production. The laws governing the development of the commodity economy of the capitalist countries should not be regarded as

things capitalist in nature. They are objective laws governing large-scale socialized production, and are things needed in our endeavor to develop the planned commodity economy. To judge whether a thing is right or wrong, we should see whether it is conducive to the development of the socialist productive forces. Implementation of the "one plant, two systems" measure has quickened the pace in using foreign capital, importing technology, and increasing export to earn more foreign exchange; and helped to develop the social productive forces, and therefore is a good thing conducive to the state, the collective and the individual.

Second, managerial departments of governments should further delegate power to lower levels, separate government functions from business management, and grant enterprises greater autonomy. Implementation of the "one plant, two systems" measure has effected a profound change in the microeconomic management activities of enterprises. Government organs and economic management departments of the state should keep abreast with this new situation, and accelerate their own reforms. At present government organs and economic management departments are still confronted with the problem of overconcentration of power. It is still a common scene that government organizations at various levels, economic management organs and some mass organizations stretch out their hands to ask for something from enterprises, and interfere with enterprises' management activities for no reason. The old methods for government departments to appraise enterprises should be changed. We should let enterprises measure their strength amid market competition, and let consumers and the society appraise, and discard meaningless inspection teams and commendatory meetings. In order to safeguard the legitimate rights and interests of enterprises, we should resolutely carry out the principle of separating government functions from business management. As long as enterprises operate according to law, no organization and individual has the right to intervene in the activities of enterprises. Meanwhile, organizations at various levels should provide favorable conditions with all possible means to make the activities of enterprises more convenient, and offer them good service. We should reform the managerial systems of government organs and economic management departments, simplify the intermediate links and procedures, change the situation of organizational overlapping and low work efficiency, and make the utmost effort to satisfy foreign investors.

Third, the issues concerning appraisal of fixed assets and finances should be well resolved. In appraising the fixed assets of enterprises, we should adhere to the principle of seeking truth from facts and the principle of mutual benefit so that both we and foreign firms have good prospects of gain. In particular, enterprises which implement the "one plant, two systems" measure are old ones, and therefore their fixed assets should not be appraised at too high a price so that their terms can be more attractive. In implementing the "one plant, two systems"

measure, enterprises will also encounter a financial problem. Those which implement the measure, generally speaking, are enterprises which need to be urgently renovated, and which lack the strength for sustained growth. These enterprises' making some concessions in finance, in essence, helps to cultivate taxpayers. And after all, the number of enterprises implementing the "one plant, two systems" measure is small, and their making concessions will not have great influence on finance.

Fourth, the social service and social welfare system should be improved. To manage well the enterprises implementing the "one plant, two systems" measure, we should further establish and improve the money market, enliven foreign exchange regulating centers and monetary organizations at various levels, and enable enterprises to use domestic funds and foreign exchange in the money market in a selective way. We should enliven the market of means of production, and properly solve problems concerning the channels through which raw materials are supplied. We should also operate well the socialist labor service market to help enterprises solve their shortage of talented people problem and arrange their surplus personnel. Managerial personnel of the Chinese side of the enterprises implementing the "one plant, two systems" measure should abide by contracts and departments at higher levels are not permitted to arbitrarily change personnel and make everyone serve in rotation without the approval of foreign firms. Regarding personnel they recruit from the market of talented people, relevant departments should render support and let them go. The information and consultation industries in service of enterprises should also be well developed. Public utilities units should foster the sense of service.

When working in our country, foreign firms would like to have a clean and beautiful environment with pleasant weather. Therefore, we should strengthen urban construction and management, and raise the society's level of civilization. We should provide foreign firms with recreational places, and well-equipped medical and health care facilities so that they will have a sense of security. In a certain sense, the level of civilization of the major leading persons of a locality or a unit decides the level of civilization of this locality and unit. Therefore, major leading comrades of a locality should strengthen leadership over the building of civilization in cities, educate and guide the masses to change their uncivilized habits, and be determined to eliminate dirtiness, disorder and impoliteness that still exist in some areas.

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[Communique on Statistics on Zhejiang's 1987 Economic and Social Development Issued on 19 March 1988 by the Zhejiang Provincial Statistical Bureau]

[Text] (Footnote) (All figures in this communique are preliminary figures. The total product of society, gross national product, and national income listed here are

calculated in terms of 1987 prices. The total industrial and agricultural output value is calculated according to the 1987 constant price, and the rates of growth, according to comparable prices) Led by the Party Central Committee, the State Council, the Provincial Party Committee, and the Provincial People's Government, the people of the whole province in 1987 firmly adhered to reform, promoted the policy of opening to the outside world, and extensively unfolded the movement of increasing production and practicing economy and of increasing revenue and reducing expenditure. As a result, the national economy developed steadily and a situation of social stability and unity prevailed. The total product of society of 1987 (Footnote 1) (The total product of society is the sum of agriculture, the building industry, communications and transportation, and commerce (including supply and marketing of materials and equipment and the catering trade). National income is the sum of the net output value of the aforementioned five material-producing departments) came to 124 billion yuan, representing an increase of 18.5 percent over the previous year. Of this sum, the total output value of industry and agriculture was 94.3 billion yuan based on the 1980 constant price, an increase of 18.9 percent over the previous year. National income reached 49 billion yuan, up 14.2 percent over 1986. According to preliminary estimates, the gross national product (Footnote 2) (Gross national product refers to the value of products and labor service used by society and supplied by material-producing departments, excluding the value of products and labor service consumed by intermediate units) was 53.6 billion yuan, an increase of 14.2 percent over the previous year. On the basis of continuous development in production, the market was brisk in the province. Economic and technological links with other localities were further strengthened, the livelihood of urban and rural residents was stabilized, and progress was made in the fields of science, technology, education, culture, public health, and sports. Major problems in national economic development were a steep increase of retail prices of certain consumer products and of prices of certain means of production and excessive investment in fixed assets.

1. Agriculture.

In 1987, the governments at various levels all considered stability of agricultural production as a main task in stabilizing the national economy. Reform was deepened in the rural areas and investment in agriculture was increased. Commodity economy developed further in the rural areas. The total product of society in the countryside (Footnote 3) (The total rural product of society is calculated in terms of 1987 prices and includes the agricultural output value of state, collective, and individually owned units; the output value of village and

township industries and private rural industries; and the gross output value of the rural building trade, transportation service, commerce, and catering trade) was 71.67 billion yuan, representing a 28.3 percent increase over the previous year and accounting for 57.7 percent of the total product of society in the province. Of this, the total output value of industry, construction, commerce, and transportation industry reached 49.28 billion yuan. Together their proportion to total product of society in the countryside rose from 64.9 percent in 1986 to 68.8 percent in 1987. The total output value of agriculture was 14.22 billion yuan, up 3.7 percent from the previous year.

The acreage of farmland cultivated with grain crops was 48.53 million mu, an increase of 1.04 million mu, changing the situation of decrease in the 2 previous years. However, due to frequent and serious natural disasters, the total output of grain was 15,889,900 metric tons, or 161,000 metric tons less than the previous year. The output of tea leaves, silkworm cocoons, and oranges registered an increase while the output of cotton, jute, ambary hemp, rapeseed, and sugarcane decreased in various degrees.

The output of major farm products was as follows:

	1987	increase over 1986 (percent)
grain	15,889,900 metric tons	- 1.0
cotton	65,400 metric tons	-13.5
jute, ambary hemp	161,700 metric tons	-17.3
tea	115,900 metric tons	11.1
silkworm cocoons	97,600 metric tons	9.8
rapeseed	377,300 metric tons	-8.6
sugarcane	1,087,700 metric tons	-17.7
oranges	549,100 metric tons	51.9

The people in the province launched a mass movement to plant trees and their enthusiasm for protecting forests was also raised. The people afforested 1,583,200 mu of land, 8.7 percent less than 1986, but the quality of afforestation improved. The total output value of forestry was 529 million yuan, an increase of 7.7 percent over the previous year.

Animal husbandry showed relatively big fluctuations with the number of pigs and cattle decreasing in various degrees, while the number of sheep and the output of milk, poultry, and eggs registered an increase over the previous year.

The output of major animal byproducts and number of livestock were as follows:

	1987	increase over 1986 (percent)
pork, beef, and mutton	761,900 metric tons	-6.1
milk	133,200 metric tons	10.4
poultry and eggs	175,500 metric tons	6.0
pigs at year's end	13,224,300 head	-5.8
cattle at year's end	747,300 head	-1.4
sheep at year's end	1,759,800 head	2.2

Fishery kept up its high development rate. The output of aquatic products was 1,249,800 metric tons, an increase of 9.6 percent over the previous year. Of this, the total catch of freshwater products increased 11.6 percent and of marine products increased 5.6 percent.

Investment in agriculture increased in 1987 and construction of farmland irrigation projects was strengthened, resulting in improved conditions for production. By the end of 1987, the aggregate power used by the province's farm machinery reached 9,833,700 kw, a 10.7 percent increase over 1986. There were 240,700 small and hand-operated tractors, an increase of 14.7 percent over the previous year. The number of trucks for agricultural use reached 11,156, an increase of 12.2 percent over 1986. Power used by irrigation and drainage equipment was 1,448,600 kw, an increase of 2.3 percent over the previous year. In 1987, a total of 88,370,000 cubic meters of earth and stone work was completed in building farmland irrigation projects, a 10.2 percent increase over 1986. A total of 838,400 metric tons of chemical

fertilizer (pure) was applied in the year, up 6.4 percent over the previous year. The total consumption of electricity in rural areas was 5,701 million kwh, and increase of 30.1 percent. However, the reserve strength in agricultural production was still somewhat inadequate.

2. Industry.

Industrial production developed steadily. The total industrial output value for 1987 reached 80.09 billion yuan (including village and lower level industries), an increase of 22 percent over the previous year. Of this, the output value of the state-owned sector went up 11.5 percent, the collective sector went up 23.5 percent (of which the increase of urban collective enterprises was 13.9 percent and the increase of rural collective enterprises was 29.6 percent), enterprises operated jointly by urban and rural areas and individually owned enterprises went up 55.9 percent, and enterprises with foreign investment (Footnote 4)(Enterprises with foreign investment include Sino-foreign equity joint ventures, Sino-foreign cooperative ventures, and enterprises wholly owned by foreigners) and of other kinds went up 80.6 percent.

Good results were achieved in adjusting the structure of enterprises and production. The output of industrial products supplying agriculture, products for export, durable consumer products in short demand, and raw materials noticeably accelerated. At the same time, production of certain undesirable items was curtailed. The total output value of light industrial products of enterprises at township and above levels was 38.85 billion yuan, an increase of 18 percent over 1986. The total output value of heavy industry was 22,203 million yuan, an increase of 21.2 percent over 1986. Light and heavy industries basically developed in proportion.

Output of major industrial products:

		1987 increase over 1986 (percent)
cotton yarn	200,000 metric tons	14.7
cloth	1,131.60 million meters	0.8
silk	13,942 metric tons	4.1
silk textile	403.44 million meters	11.0
woolen goods	19.99 million meters	-8.3
machine-made paper and paper board	678,700 metric tons	14.6
sugar	19,400 metric tons	-29.0
cigarettes	923,600 boxes	1.2
beer	760,400 metric tons	42.9
medicinal chemicals	3,569 metric tons	9.3
bicycles	2,255,700	18.0
sewing machines	607,800	-5.7
watches	385,900	-51.8
TV sets	892,400	12.2
of which color sets	80,000	23.1
tape recorders	1,105,800	24.7
cameras	3,469	69.0
household washing machines	1,182,900	-11.2

		1987 increase over 1986 (percent)
household refrigerators	588,800	46.7
coal	1,442,900 metric tons	-2.3
electricity	17,301 million kwh	16.8
processing of crude oil	2,436,500 metric tons	7.0
steel	577,100 metric tons	24.8
rolled steel	765,900 metric tons	11.2
timber(commodity timber)	1,155,000 cubic meters	47.9
plate glass	1,194,100 boxes	-1.3
cement	12.16 million metric tons	
21.8		
sulphuric acid	283,800 metric tons	4.6
soda ash	69,700 metric tons	10.1
chemical fertilizer (converted to weight of fertilizer with 100 percent effective content)	740,600 metric tons	23.9
insecticide (crude)	15,900 metric tons	-41.8
power generating equipment (over 500 kw)	374,000 kw	26.4
machine tools	29,400	54.7
motor vehicles	7,598	33.3
small tractors	42,700	36.7

Economic results improved. Profits and taxes of state-owned industrial enterprises were 3,254 million yuan, up 15.7 percent from the previous year. The turnover period for working funds was shortened by 4 days. The marketability of industrial products of enterprises that are above the level of rural collectives and keep independent accounts was 98.7 percent. The quality of 86 percent of major products either remained stable or improved. Consumption of 68 percent of major raw and processed materials and fuels either remained unchanged or decreased. The 1987 situation was better than 1986 in terms of quality of products and consumption of materials and fuels. Per-capita productivity of state-owned industrial enterprises that keep independent accounts was 20,196 yuan, up 7.6 percent from the previous year. However, costs of comparable products rose 7.79 percent over the previous year.

Industrial enterprises generally implemented the contracted managerial responsibility system of various forms, improved the system of the plant director assuming full responsibility and further enhanced their vitality. In the province, 70.4 percent of state-owned enterprises practiced the contracted managerial responsibility system. Production and economic results of these enterprises were above the average of industrial enterprises as a whole. Economic and technological cooperation and lateral economic associations further developed in the province.

3. Investment in Fixed Assets and Construction

Control was exercised over investment in fixed assets in state-owned enterprises. In 1987, investment in fixed assets in state-owned enterprises was 5,944 million yuan, up 16.9 percent from 1986, a lower growth rate than the

28.6 percent growth rate of 1986. However, total investment in fixed assets in the province as a whole was still excessive. The investment in fixed assets in urban and rural collectively owned enterprises was 4.96 billion yuan, a 44 percent increase over 1986. The investment made by individuals in urban and rural areas was 7.07 billion yuan, a 67.9 percent increase. The total investment in fixed assets in the province as a whole was 17,975 million yuan, up 41.1 percent.

All localities and departments actively adhered to the principle of three guarantees and three restrictions and made fairly big readjustments in the capital construction investment structure. The investment made in capital construction by state-owned enterprises was 3,464 million yuan, up 10 percent from the previous year. Of this investment, the investment in productive construction projects was 2,035 million yuan, up 19.2 percent from 1986 and accounting for 58.8 percent of the total capital construction investment of those enterprises; in 1986, the proportion of their investment in productive projects was 54.2 percent. The investment made by those enterprises in nonproductive projects was 1.43 billion yuan, down 0.9 percent from the previous year with its proportion dropping to 41.2 percent from 45.8 percent in 1986.

Construction of key projects was stepped up. Of the capital construction investment made by state-owned enterprises, 790 million yuan went into energy projects, a 21.1 percent increase over the previous year; 373 million yuan into transport, posts, and telecommunications, a 4.4 percent increase; and 521 million yuan into cultural, educational, and public health projects, a 10.6 percent increase. An investment of 1,146 million yuan was made in 43 key state and provincial projects, fulfilling 99.2 percent of the annual investment plan.

The completion of 2,605 capital construction projects, including housing with a total floor space of 5,271,700 square meters, added fixed assets worth 2,535 million yuan to state-owned enterprises. The following key projects were put into operation either completely or partially: the No.1 through No.4 generators, with a total capacity of 200,000 kilowatts, at the Jingshuitan power station; the 125,000-kilowatt No.5 generator at the Taizhou power plant; a production line for producing 1.29 million standard cases of plate glass annually at the Hangzhou glass plant; a production line for producing 360,000 pieces of bathroom equipment annually at the Shangyu sanitary ceramics plant; a production line for producing 5,000 metric tons of insecticide annually at the Ningbo insecticide plant; a production line for producing 1,500 metric tons of polyester film annually at the Hangzhou magnetic tape plant; a wharf for 25,000-ton-class ships at Ningbo harbor; and 112.69 kilometers of power transmission lines in the province.

Technological transformation of enterprises was accelerated. The investment made by state-owned enterprises in equipment replacement and technical updating totaled 2,203 million yuan, a 31.4 percent increase over 1986. Of the total investment, the investment in projects for conserving materials and energy, increasing the variety of products and improving their performance and quality amounted to 596 million yuan, up 12.8 percent.

The building industry continued its advance in the course of reform. In the province, 88 percent of state-owned and urban and rural collectively-owned construction enterprises implemented the contract system. Some progress was made in practicing the open bidding system. Engineering quality aroused the people's attention. The total output value of local state-owned construction enterprises was 918 million yuan, up 19.7 percent from the previous year; and their per-capita labor productivity increased 15.1 percent.

Geological survey work registered new achievements in 1987. More reserves of seven minerals were discovered. Total length of drilling for geological prospecting was 164,700 meters, an increase of 32,300 meters over the previous year.

4. Transport, Posts, and Telecommunications

The transport department furthered its reform, made persistent efforts to improve its work in all respects, and created an excellent situation of competition. With various means of transport fully playing their roles, the department accomplished its transport tasks in a comparatively good way and promoted the development of industrial and agricultural production and urban and rural commodity circulation.

Volume of passengers and cargo handled by various means of transport is as follows:

	1987	increase over 1986 (percent)
volume of cargo	26,738 million metric ton/km	6.7
by railway	13,807 million metric ton/km	2.1
by highway	1,646 million metric ton/km	3.5
by waterway	11,285 million metric ton/km	13.2
volume of passengers	19,908 million person/km	3.9
by railway	8,394 million person/km	7.0
by highway	10,233 million person/km	2.1
by waterway	1,281 million person/km	-4.5
volume of cargo handled at major sea-ports	39.95 million metric tons	19.6

Posts and telecommunications saw fairly big progress. Business transacted by these departments totaled 249 million yuan, a 21 percent increase over 1986. Compared with the previous year, the total number of letters handled went up 14.7 percent, the number of newspapers and magazines distributed 7.7 percent, the number of telegrams 26.5 percent, and long-distance telephone calls 36.4 percent. Four cities in the province were equipped with telephone exchange systems. The number of telephone subscribers in urban areas at year's end totaled 146,000, up 20.5 percent from the end of 1986. The number of telephone subscribers in rural areas at year's end totaled 72,800, an increase of 15.7 percent over the previous year.

Economic results continued to improve in transportation and posts and telecommunications departments. Total operational income of provincial transportation enterprises was 550 million yuan, an increase of 9.2 percent over 1986. Profits earned by posts and telecommunications enterprises rose 107 percent. However, the province's transportation and communications infrastructure remained strained and was unable to keep up with the development of the national economy. The situation in transportation safety was unsatisfactory. The number of accidents in 1987 was 16,000, with about 3,000 deaths and 10,000 injured in those accidents, causing direct economic losses totaling 13.82 million yuan.

5. Domestic commerce, supply and marketing.

Urban and rural markets in the province remained brisk in 1987. Volume of retail sales in 1987 totaled 27,937 million yuan, an increase of 19.8 percent over the previous year. In real terms the increase was 9.4 percent. Of total retail sales, consumer goods accounted for 24,258 million yuan, an increase of 19.2 percent. The total value of consumer goods sold to urban and rural

residents was 21,855 million yuan, an increase of 19 percent over 1986, and the total value of consumer goods sold to social organizations was 2,403 million yuan, an increase of 21.1 percent. Of total retail sales, agricultural means of production accounted for 3,679 million yuan, an increase of 23.9 percent over 1986. Retail sales of all commodities increased by a big margin since 1986. Retail sales in the state-owned sector increased by 17.9 percent, retail sales in the collective sector by 15.5 percent, retail sales in the individual sector by 29.4 percent, and retail sales between farmers and nonagricultural people by 32.4 percent.

Retail sales of all consumer goods increased in 1987. In real terms, retail sales of food products increased by 9.6 percent over 1986, retail sales of clothing by 4.7 percent, and retail sales of other daily necessities by 11.2 percent.

Economic results of state-owned commerce and supply and marketing cooperatives improved. Expenses incurred in retail sales dropped 1.7 percent as compared with the previous year. However, there was conspicuous contradiction in supply and demand of certain consumer goods.

Reform of the commercial system progressed in depth. By the end of 1987, there were 301 integrated economic entities engaged in commercial activities in the province, consisting of 878 enterprises as their members. Various forms of contractual management responsibility systems were instituted in commercial enterprises. By the end of 1987, 1,349 small state-owned commercial enterprises under the Department of Commerce were managed by collectives while retaining state ownership, switched to collective ownership, or leased to individuals. Brisk business was reported at urban and rural fairs, which totaled 3,706, up from 3,653 in 1986. Their business volume in 1987 amounted to 8.086 billion yuan, an increase of 36.7 percent over 1986.

Excessive increases were reported in market prices. In 1987 the provincial retail price index rose by 9.5 percent over 1986. It rose by 11.3 percent in Hangzhou City, 11.1 percent in Ningbo City, and 13 percent in Wenzhou City. In urban areas, it rose 11.3 percent, and in rural areas, 7.4 percent. Prices of consumer goods rose 9 percent; and those of means of agricultural production, 11.1 percent. Among the various categories of consumer goods, the cost of foodstuffs rose by 13.2 percent; fresh vegetables, 42.9 percent; meat, poultry and eggs, 15.8 percent; aquatic products, 25.8 percent; and fresh fruits, 8.8 percent. The cost of clothing rose 5.4 percent; household goods, 4.3 percent; medicine and medical apparatus, 5.7 percent; and fuel, 0.8 percent. The retail price index at trade fairs throughout the province was 20.7 percent higher than in 1986.

The cost of living for urban employees went up by an average of 10.9 percent. Spending on service items rose 5.7 percent.

The general purchase price level of farm and sideline products rose 19.1 percent. Grain purchase price rose 10.4 percent.

The market for means of production further expanded. By the end of 1987, the province had 12 trading centers for means of production of all kinds, including 6 rolled steel markets. Supply departments throughout the province purchased a total of 9.367 billion yuan worth of supplies, up 39.5 percent from 1986, and sold 9.793 billion yuan worth of supplies, up 39.2 percent from 1986.

As far as price control is concerned, pricing policy violations were committed by some monopolistic trades, enterprises and self-employed street pedlars, who drove up purchase prices of farm and sideline products and selling prices of commodities in short supply. Other fairly serious problems include disguised price increases, substitution of inferior goods for quality products, short-changing customers, and tie-in sales of goods.

6. Foreign Economic Relations and Tourism

Various localities began to develop an export-oriented economy. According to customs statistics, the province's 1987 total import and export value amounted to \$1.5 billion, topping 1986 by 16 percent. Exports totaled \$1.23 billion, up 13.1 percent over the previous year; imports totaled \$270 million, up 31.7 percent.

In absorbing foreign capital through various channels, Zhejiang signed agreements and contracts totaling \$140 million, a 260 percent increase; actual foreign capital used amounted to \$110 million, a rise of 150 percent over 1986. A total of 39 agreements and contracts involving \$45.25 million of direct foreign investment were approved. Enterprises with foreign investment (Footnote 4)(Enterprises with foreign investment include Sino-foreign equity joint ventures, Sino-foreign cooperative ventures, and enterprises wholly owned by foreigners) earned \$18.79 million in foreign exchange income, up 110 percent from the previous year.

Non-trade foreign exchange income amounted to \$58.19 million, down 6.7 percent from 1986. Contracts for overseas projects and labor services signed in 1987 were worth \$57.62 million.

The tourist industry also made great progress, and Zhejiang attracted 330,000 tourists and visitors from some 130 countries and regions. This was a 12.3 percent increase over 1986. Foreign exchange earned through tourism during the year amounted to \$160 million, up 12.7 percent.

7. Science, Technology, Education, and Culture

Structural reform of science and technology was actively carried out to keep pace with economic construction. In 1987, a total of 968 natural science research projects won

provincial prizes. Of these, 27 received major state awards. A technology market began to take shape. A total of 8,289 technical contracts were signed in 1987, valued at 96.55 million yuan. The "sparking program" continued to make good progress. Marked results were also achieved in patents work. Meteorological departments made fairly prompt and accurate weather forecasts, providing a great deal of socially helpful data.

The ranks of scientists and technicians continued to expand. As of the end of 1987, a total of 231,000 natural scientists and technicians were employed in state units, 13,000 more than in 1986.

Advances were made in education. Institutions of higher learning enrolled 944 postgraduates in 1987, 196 less than in the previous year. There were 3,178 postgraduates studying in institutions of higher learning, 214 more than in the previous year. Among them 705 received postgraduate degrees, 269 more than in 1986. Universities and colleges enrolled 18,200 students last year, 300 more than in the previous year; the total student body was 60,100, up 2,700 from 1986. Last year, 15,000 students of higher education graduated, up 2,000 from the previous year. Institutions of adult higher education had a total enrolment of 40,200, 700 less than in the previous year.

Secondary and vocational education developed steadily in 1987. The various secondary and polytechnical schools had a total enrollment of 57,900 students, of which various technical schools had a total enrollment of 40,500 students. In addition, 41,000 people in the province received secondary-school-level adult education.

The 9-year compulsory education system was implemented in a gradual manner. In 1987, 538 townships, towns, and neighborhoods announced the implementation of 9-year compulsory schooling. In 1987, there were 3,651,500 pupils in primary schools. The attendance rate of school-age children reached 98.6 percent. There were 812,500 children in kindergartens, an increase of 93,500 children compared with the previous year. In addition, special education for children was also strengthened.

Cultural, news, publication, radio, television, and other media made new contributions to publicizing the party's basic line, promoting reform and other work, and enriching the people's spiritual life. In 1987, the film industry in the province produced 1 feature film and 1 scientific and educational documentary and released 199 new (full-length) films. In addition, 32 TV films and a total of 99 series were produced in 1987. At year's end, there were 5,089 cinemas and film projection teams, 112 performing art troupes, 93 cultural centers, 79 public libraries, 40 museums, and 89 archives in the province. In 1987, there were 12 broadcasting stations and 36 television stations at county and above levels. Radio and television broadcasts covered respectively 88.93 percent

and 78.36 percent of the total population in the province. During 1987, 755 million copies of newspapers, 73 million copies of magazines, and 239 million copies (sheets) of books and pictorials were published.

8. Public Health and Sports.

Public health further improved in 1987. The number of hospital beds in the province reached 78,600 at the end of 1987, 3,000 more than in 1986. Professional health workers numbered 117,200, an increase of 3,300. Among them, 47,300 were doctors, an increase of 2,000 over 1986, and 19,700 were nurses, an increase of 1,500. The public health departments actively controlled and prevented the spread of various frequently occurring and common diseases.

Notable achievements were made in sports. In 1987, athletes from Zhejiang Province won 51 gold medals, 37 silver medals, and 36 bronze medals in major national, Asian, and world competition. At the Sixth National Games, the provincial sports delegation ranked fourth in the number of gold medals won and ninth in total scores. Mass sports activities developed extensively in the province.

9. Living Standards

Living standards in urban and rural areas remained stable, with some increases in income. In 1987 the province's gross payroll (Footnote 5)(Total wages and average cash salaries of workers and staff include pork and other price subsidies issued to workers and staff) totaled 6.662 billion yuan, up 14.9 percent from 1986. The employees' average wage in terms of currency was 1,493 yuan, up 10.9 percent from 1986. After adjustment for the increase in the cost of living of employees, the actual wage was the same as in 1986. A sample survey of urban employees' families showed an average annual per capita income of 1,122 yuan which could be used for living expenses, up 10.8 percent from 1986. If price rises are taken into account, the actual per capita income remained the same as in 1986. However, as a result of price increases and other factors, actual incomes of some families were lower.

According to a sample survey of rural families, the annual peasants' average per capita net income was 725.13 yuan, up 19 percent from 1986. After taking the price hike factor into account, the actual income rose by 13.6 percent. Of this net income, 649.94 yuan was derived from productive activities, an increase of 18.3 percent, and 75.19 yuan was derived from nonproductive activities, an increase of 25.9 percent. Due to natural disasters, price hikes, and other factors, some peasants' actual income decreased somewhat. In rural areas, 1.1 percent of the peasant households have an average per capita net income of less than 200 yuan.

Reform of the labor system focused on the labor contract system was further carried out, and the labor employment rate rose. The province provided jobs for 80,500 people in cities and towns. By the end of 1987, urban employment reached 4,753,400, topping that at the end of 1986 by 194,300. Of this number, employees accounted for 4,596,500, an increase of 166,100 people, and urban self-employed workers accounted for 156,900, an increase of 28,200 people. The number of contract workers in state-owned units was 285,100, an increase of 87,000 people. Reasonable transfer of labor forces was facilitated on a limited scale.

Savings deposits of people in urban and rural areas continued to grow. By the end of 1987, individuals' savings deposits amounted to 12.912 billion yuan, up from 3.12 billion at the end of 1986, an increase of 31.9 percent.

Housing for both urban and rural dwellers improved. By the end of 1987, average per capita housing space for urban dwellers reached 9.1 square meters, and that for peasants 24.73 square meters.

Social welfare received further attention. In 1987 the province had 950 social welfare institutions which took care of 12,000 people. Collectives in urban and rural areas provided for 50,000 childless, elderly, disabled, and orphaned people scattered in society.

10. Population

As of the end of 1987, Zhejiang's total population stood at 41,212,000, 510,000 more than in 1986. The birth rate continued to rise after a dip. According to a sample survey, the province's birth rate in 1987 was 17.01 per thousand, up from 15.96 per thousand in 1986, and the mortality rate was 6.65 per thousand. The natural growth rate increased to 10.09 from 10.02 per thousand in 1986.

INDUSTRY

Areal Development of Industry Distribution

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[Article by Wang Zhuyuan (3769 5268 0337) of the Social Sciences Institute of Beijing Municipality and Zeng Xinqun (2582 2450 5028) of the Department of Economic Administration, Qinghua University: "Strategy for the Areal Development of the Distribution of China's Industries"]

[Text] Strategy of areal development of industries is an important problem with a comprehensive and historical bearing on economic and social development. China being a big socialist country with a population of 1 billion, a scientific and careful choice should be made regarding the strategy for the areal development of

industries. Since the disparities in economic development between different localities have swiftly widened in recent years, making such a choice should no longer be delayed.

This article will attempt to offer a strategy for the areal development of the distribution of China's industries. Here areal refers to the economic geographic space with modern industries, generally cities and towns or groups of cities and towns, also including townships and towns closely related to urban industries. The areal concept at the same time relates to a regional factor and a positional factor. A macroeconomic national economy is a regional structure usually formed by a number of economic regions and an area is a microeconomic regional point distributed in the regional structure. The distribution of areas in the regional structure is the areal pattern. The reciprocal relations of the areas constitute an areal network. In contrast with the areal concept, this article offers a non-areal concept which refers to the economic geographical space without or lacking modern industries, and is the economic and geographical space outside the areas of the regional structure. The process of industrial development is the process of additions in the number of areas and is also the process of expansion and transition of areal pockets to non-areal pockets, thereby leading to evolution in the areal pattern.

The strategy for areal development considers that China, being a large developing country, possesses a typical dual structure of a modern economy and a traditional economy and that in geographical space this dual structure is manifested as a type of special areal distribution: First, between areal network and non-areal pockets exists the essential difference between a modern economy and a traditional economy, that is, areal economy is principally modern economy whereas non-areal economy is principally traditional economy; second, between different areal the extent of the modern economy differs and between different non-areas the extent of the traditional economy differs; and among different areas the number, scale and level of area differ. Distribution of China's industries should carry out the strategy of a combination of centralizing and dispersing in areal development, that is, modern industry should first be centralized for priority development in certain areas and these areas, based on the principle of comprehensive social benefits, should be unevenly distributed in the various regions throughout the country. Following the progress of industrialization, the number of areas will gradually increase and at the same time modern industry will gradually spread from the area to the non-real pocket, leading eventually to the all-round fulfillment of the industrialization of the economy of the whole country. This article will discuss only the distribution of industries of developing countries related to the dual structure and will not touch on conditions of this kind in countries which have completed the process of industrialization.

Only in correctly bringing up a problem is it possible to correctly solve the problem. Since the founding of the PRC, discussions on the distribution of industries have

been carried out mainly around the locality relations between the coastal areas and inland and bringing up of the tier theory and tier development is the continuance and development of these discussions. The basic logical precondition of these discussions is to take the relations of the three areas of the eastern, central, and western part as the basic relations and basic frame work of the research on the distribution of industries of China; nevertheless, the correctness of this precondition has never been ascertained.

According to the tier theory, the geographic development level of the industries of China follows the tier distribution according to the order "eastern part—central part—western part," that is, the developed eastern area, the next developed central area and the non-developed western area; development of China's industries from now on should also follow the tier development strategy of the order of the "eastern part—central part—western part." The tier theory has its rational factors and has made valuable contributions to rectifying the errors in the past strategy of industrial distribution. However, it lacks sufficient basis and support in respect to both statistical facts and economic theories. The tier theory seems to have seriously overlooked the ample results achieved in research in modern economics relative to industrial distribution and highly simplified the complex industrial distribution into the so-called tier relations between the three localities of east, central, and west. It lacks the necessary microeconomic analytical basis and also lacks a proper analysis of the macroeconomic regional structure. As a whole, be it a description of the real nature of China's present industrial conditions or a standard guidance for the development of China's industries, the tier theory and the tier development (movement) strategy both find it difficult to stand their ground. In view of the widespread and rather great influences of the tier theory, in our description of the areal development strategy we shall contrast it with the tier strategy.

[Text]

I

Areal Distribution in Development of China's Industries

After the Opium War, China's modern industry and commerce first grew in a minority of areas and after prolonged changes and evolutions were mainly concentrated in such areas as the Chang Jiang delta, Liaoning, Hebei and Beijing, Tianjin, and Tangshan in the eastern and central sectors and also in such cities as Qingdao, Wuhan, Harbin, Guangzhou, Taiyuan and Chongqing. Undoubtedly, the majority of industrial areas are located along the coastal areas and are not distributed throughout the entire coastal region but are mostly concentrated in a few coastal provinces and cities. The majority of areas along the coast and by far the great majority of localities in the interior are similarly under the typical traditional economy, there being no essential differences. It may be said that before the founding of the

PRC, distribution of industries was a sort of deformed and isolated areal distribution and did not follow the tier distribution according to the order of the eastern, central, and western parts.

Following over 30 years of construction after the establishment of the republic, the distribution of our country's industries has undergone penetrating changes and within the country a number of modern industrial zones of different types have been formed: 1) Zones wherein the raw materials industry and processing industry are relatively developed such as Liaoning's central and southern industrial zone, the Beijing, Tianjin and Tangshan industrial zone, the industrial zone along the Jiaoji Railway, the Lanzhou, Tianshui, Yinchuan and Xining industrial zone, Central Hunan industrial zone, Southern Hebei and Northern Henan industrial zone, Western Henan industrial zone, Huhehot and Baotow industrial zone, and so forth; 2) Zones with the manufacturing industry as their main force such as the Chang Jiang Delta industrial zone, Zhu Jiang Delta industrial zone, Heilongjiang and Central Jilin industrial zone, Chengdu-Chongqing industrial zone, Guanzhong industrial zone, Western Hubei industrial zone, and so forth; 3) Zones wherein the raw materials and fuels and motive power industries constitute the main force such as Eastern Heilongjiang industrial zone, Western Heilongjiang and Eastern Neimenggu industrial zone, industrial zone along the Dongpu railway line, Sichuan, Guizhou and Yunnan industrial zone, central Anhui industrial zone, and so forth. From this it can be seen that China's modern industries are unevenly distributed throughout the whole country, presenting a complex state of areal distribution and not simply the tier type distribution of being separated into the "eastern, central and western" regions. If statistics are compiled on the basis of the "eastern, central and western" regions, then it may be said that while the eastern sector has enjoyed great development, the majority of new industrial areas have been formed in the interior.

To obtain a clear understanding of the present condition of the distribution of industries in China we have made use of a list of important economic statistical targets to make a comparison between our country's eastern portion, central portion and western portion (demarcation of the eastern, central and western sectors follows that in the "PRC's Seventh 5-year Plan (1986 to 1990) of economic and social development) and between their respective provinces and cities as well as the various districts in their provinces and regions. The economic statistical targets employed included the following: social gross output value and per capita social gross output value, industrial gross output value and per capita industrial gross output value, industrial net output value and per capita industrial net output value, total number of scientific and technological personnel and per capita number of scientific and technological personnel, literacy rate, number of large and medium-sized enterprises and number of township and town enterprises, whole labor productivity rate and its rate of increase, realized

profit rate and its rate of increase, realized profit-tax rate and its rate of increase, per capita profits, per capita profit-taxes, capital profit-tax rate and rate of its increase, number of days of turnover of fixed circulating funds and the accelerating rate, and so forth. The results of the comparison showed that in economic development there were definite differences between the eastern coastal areas and the inland but it was not possible to derive the conclusion that the eastern section was the developed area, the central section, the next or secondary developed area and the western section, the undeveloped area, still less the conclusion of the "eastern section being of the matured type, the central section of the growing type and the western section, the developing type; on the contrary, it was comparatively more clearly shown that the differences internally along the coast and in the interior were conspicuously larger than between themselves. Therefore, a comparison carried out on the basis of demarcating into "eastern, central and western" areas cannot reveal the most fundamental characteristics of the complex condition of the distribution of China's industries. For the sake of correctly selecting a strategy for distribution of the industries, the research thereon should be a study on areal distribution which combines a microeconomic analysis with a macroeconomic analysis.

The statistical analysis showed that the dual structure of the coexistence of modern economy and traditional economy in our country did not mainly manifest, or we should rather say, first manifest the so-called tier differences between the economy along the coastal areas and the economy in the inland but first manifested the differences between the areal modern economy and the non-areal traditional economy. The internal parts of our country's eastern, central, and western sectors are all divided into being areal and non-areal and into developed localities and un-developed localities and the essential differences between modern economy and traditional economy exist in all of them. The economies of the eastern coastal areas and of the central and western interiors are both modern economy and traditional economy and are dual structures formed by developed regions and undeveloped regions, possessing a common essential character. The differences between the coastal economy and the inland economy are the differences in degree between the dual economic structures of essentially the same character and are smaller than the essential differences between areal modern economy and non-areal traditional economy and between developed areas and undeveloped areas internally in the coastal and inland areas. This effectively and as a whole refutes the description of tier distribution in the current conditions of China's economy and urges us to adopt the description of areal distribution. The relations between the areal (modern economy) and the non-areal (traditional economy) and the relations between the areas are the two basic relations in industrial distribution and may be given the general name of areal relations. Due to the areal and the non-areal being distributed among the various regions, the eastern sector cannot be identical to

(or nearly identical to) developed areal regions while the relations between the eastern, central, and western sectors can never be identical to (or even nearly identical to) the dual structure between the areal and the non-areal. Refuting the tier distribution does not imply smothering the important and large-scale differences ranging from general quantity to economic and technological levels between the economy of the coastal areas and the economy of the central and western sectors of inland, except to explain: First, these differences are not the first-place basic relations of the distribution of China's industries; and second, these relations can only be correctly explained through the areal and non-areal relations. Speaking as a whole, the number of industrial areas along the coastal region is larger than the inland (hence the proportion of modern economy is larger than that in the inland), the scale of the areas is larger than that in the inland, the level is higher and the differences between the economies of the areal and the non-areal (developed localities and un-developed localities) are smaller than in the inland.

For various reasons, since the 1980's there has been a rapid and all-round expanding tendency in the disparities in economic development between the three sectors of the east, central, and west. This is indeed alarming. Nevertheless, this fact still has not attested to the correctness of the tier theory. First, in the interior of the three sectors, particularly in the interior of the eastern sector, the economic disparities are also rapidly widening, that is, in the interior of the eastern sector, between the developed areas and the undeveloped areas and between the areal economy and the non-areal economy, the economic disparities are rapidly widening but the whole eastern sector has not become a developed area. Second, the changes in the widening of the economic disparities between the eastern, central, and western sectors have not changed the basic fact that the economic disparities in the interior of the three sectors are larger than the economic disparities between the three sectors of the east, central and west, that is, the eastern sector, similar to the central and western sectors, still shows a dual structure of modern economy and traditional economy and the essential differences between modern economy and traditional economy in the interior of the three sectors are still larger than the differences in degree of the dual structures between the three sectors. Hence, tier distribution still cannot be the basic description of the distribution of industries in China. Third, be it based on the general principle of the interest as a whole of the state or according to the special principle of socialist common affluence, the speedily expanding trend of the disparities in economic development between the eastern, central, and western sector cannot be allowed to continue on a long-term basis. Since enforcing the strategy of tier development would only accelerate this trend, this precisely explains that the tier strategy is not workable.

II

Areal Development Is the Usual Law of Industrialization

The history of economic development and theoretical research in economics have both shown that modern industry can only first grow and develop in a minority of

areas and thereby leads to the dual structure of modern economy and traditional economy. The minority areas of the first growth of modern industry are the so-called growth points or growth nucleus. The areal growth of modern industry is determined by the unbalanced nature of economic development and is closely related to dimensional economics and collective or accumulating economics, that is, the production factors (particularly capital and skilled labor force) must first be concentrated in a small number of points (cities and towns) and in a small number of enterprises before better effects and development can be achieved. The process of industrialization is the process of the reciprocal functions between the areal and the non-areal and between the areas. These two types of functions are in turn manifested in movements of three different forms: The first is that the development of the areal modern economy leads to the expansion or elevation of the original area; and the third is modern economy spreads from the areal to the non-areal and makes the non-areal economy modernized. In the end, these three movements lead to the vanishing of the dual structure, thereby realizing the nation-wide modernization of the national economy. This is the usual process of the areal development of industry.

The reciprocal role played by areal modern economy and nonareal traditional economy embraces two kinds of effects, namely, contrasting and coordinating. Joining together the suggestions made by Miu-er-da-er [4924 1422 6671 1422] and Hessman and taking into consideration the standard terms in physics and chemistry we have given the terms of "extreme effects" and "dispersing effects" to these effects. The former effects make the production factors centralize from the non-areal to the areal and enlarge the economic disparities between the areal and the non-areal. The latter effects make the production factors (particularly capital and technology) spread from the areal to the non-areal and reduce the economic disparities between the two. These two effects have a definite positional lag in point of time, that is, in the early stage of industrialization, extreme effects are more noticeable than dispersing effects, thus forming a clear dual structure; whereas in the latter stage of industrialization, dispersing effects become more important and in the end bring about the disappearance of the combined structure of modern economy and traditional economy.

Between the economies of different areas two types of effects, namely contrasting and coordinating, also exist, that is, the competitive effects and cooperative effects. Competition includes the competition for production factors (resources) and competition for product markets. This leads to splitting of interests between the areas. Cooperation means the relations of specialized coordination. It makes the relations of the economies of different areas become unified. Both kinds of effects have positional differences in point of time, that is, in the initial period of industrialization, competitive effects

are more important than cooperative effects whereas in the subsequent period of industrialization, cooperative effects surpass competitive effects in importance.

In the course of industrialization, the reciprocal roles played between the areal and the non-areal and between the areas are important. However, at different periods the importance of the two is not the same. In the initial period of industrialization, the supply-demand relations and the reciprocal roles between the areal and the non-areal are all the more important while in the latter stage of industrialization, following the increase in the number of areas and the rise in the degree of industrial processing, the supply-demand relations and the reciprocal roles between the areas are first in importance. Economic unification will first appear among the developed areas and not between developed areas and backward areas.

Area is the basic point and unit in economic and geographical space. It is generally scattered in a definite areal structure. This relates to the demarcation of economic areas and also touches on the relations between the areal process and the areal economy (due to the lack of space, separate discussions will be made on the latter later on). An economic region is determined by the regional characteristics of many factors such as natural environment, social conditions, supply of resources, consumption demand, transport and communications.

Demarcation of economic regions may be made from two different angles: One is in accordance with the density degree of the economic liaisons (that is, the economic liaisons between the areal and the non-areal and between the areas); and the other is according to the degree of proximity to the economic level (that is, according to the number of areas, their large or small scale and their high or low level in different regions for demarcation into developed areas, secondary developed areas and un-developed areas). Regarding the first category of demarcation of regions according to the density degree of the economic liaisons, it is important to study the partial and entire relations of the internal parts of the region as well as the whole region in economic development; while as for the second category of regional demarcation according to the level of economic development, it is important to study the special development guidelines and common development strategies. Although the angles taken in the study of these two categories differ, they must be carried out jointly. For example, in respect to the developed areas and undeveloped areas in a country, different economic policies should be adopted but due to the two constituting the whole body of the national economy, naturally the demand is that national policies of a certain nature of coordinating development should be adopted.

Generally speaking, be it a demarcation according to the density degree of economic liaisons or a demarcation according to the economic development level, the forms of demarcation of economic regions are not unitary but

are multiple and intersecting and can thereby form different regional structures. Naturally, demarcation forms may be primary or secondary and basic or non-basic. In economic actual practice, regardless of which demarcation form is adopted, it is necessary to harmonize with the objective and practical demarcation. The tier theory's advocacy of demarcation into three separate regions obviously does not belong to the first category of regional demarcation according to the density degree of the economic liaisons. The eastern, central, and western sectors were not in the past, are not at present, and will not in the future be three basic economic regions internally having close liaisons. In the sense of the first category of demarcation, a regional demarcation into the northeast, north China, northwest, east China, central south, and south-west may possibly possess a greater significance. Demarcation into the three sectors of the east, central, and west follows the second category of regional demarcation according to the economic development level. But, does this category of demarcation possess the most basic significance? This thus touches on the relations between the areal distribution and the regional structures in the sense of the second category of regional demarcation according to the economic development level.

In general, between the pattern of industrial areal distribution and economic regional structure there does not exist any simple correspondence relation. the higher the degree of economic progress, the worse is the interrelated nature between the two and this is all the more true under the conditions of a unified domestic economy. Economic intercourse between an areal with another areal or non-areal is not confined to the specially fixed region of the location of the areal. Areal distribution is frequently a complex network which is trans-regional, intersecting, and radiating. Industrial development necessarily first starts in a small number of areal points and then gradually spreads. However, whether these areal points are first simultaneously developed in different districts or centered in an individual district, and, to go a step further, whether the spread of industrial areas and the development of modern industry are first simultaneously developed in different regions or first completed in an individual region and then transferred to other regions, are determined by the concrete historical conditions of different countries. Only under the second category of conditions can the tier or ladder-like development strategy be established. That is, in the process of industrial development when a certain specially designated region's areas are densely concentrated, large in scale and high in level, this forms a so-called developed locality whereas in other regions wherein the areas are scanty, small in scale and low in level, then secondary-developed or undeveloped localities are formed. Only at this juncture will there appear the ladder-like relations in the opening order and degree of development. "Opening up of "industrial areas" may take many and various forms. "Ladder-like opening" is only one of the possible

models and not the form universally used. Thus, ladder-like relations grow from areal relations and regional relations and may, or may not, comprise non-basic relations.

Industrial development in the United States and the Soviet Union seemed to have gone through the process of ladder-like development, but both of them are newly rising big countries with extensive territories and a relatively small population. Their population, surplus labor force, and the original traditional economy were at first concentrated in a certain region and the tier or ladder-shaped movement in their economic development was related to their large-scale population movements, or, it may be said that the large ladder steps taken in population distribution determined the corresponding ladder-like degrees in economic development. China is a civilized old country with a prolonged history of economic development. It has a big and widely distributed population and its traditional agriculture is universally and highly developed. If a demarcation is made according to the eastern, central and western relations, then the eastern sector and the central and western sectors likewise possess a large volume of surplus, or potentially surplus, labor force, and universally have a strong demand for development of modern industry as well as the economic, social and natural conditions for it. Even in the western border regions, due to the limitations of natural conditions, the size of agricultural population it can support is far smaller than the eastern and central regions, the shortage or lack of labor force is not one of the major factors restricting industrial development. In short, speaking of the country as a whole, in China the problem does not exist of the ladder-like distribution of population determining the ladder-like opening up of the economy. China's industrial areas can never be like the United States and the Soviet Union of first being centered in individual regions and subsequently gradually moved elsewhere. The ladder-shape opening up strategy following the order of the eastern sector, the central sector and finally the western sector is fundamentally not in harmony with China's basic national conditions.

Regardless of whether based on the general law of industrialization or on China's special national conditions, China's industrial development must carry out a kind of areal opening up strategy which combines centralizing and dispersing, that is, modern industry must first be centered in certain major areal points for priority in development and these areal points must be appropriately scattered among the various regions of the entire country (these regional structures principally should not be formed according to geographical relations of the eastern, central, and western regions). An areal development strategy is a sort of dual structure strategy in geographical distribution for economic and social development, that is, first in the major areal points stepping up the development of modern industry and modern economy, and in the non-areal points undergoing a relatively slow development, even to the extent of retaining a certain portion of the traditional economy so that

by means of the areal economic development non-areal economic development is fostered and promoted and the gradual industrialization of the whole country is realised.

Wholly negating the ladder-like opening up strategy and advocating the areal opening up strategy does not refute that in the context of non-basic relations economic development along the coast and in the interior may possibly develop disparities in degrees in respect to the order and speed of procedure and also does not refute the importance of the shifting of funds and technology from the eastern sector (principally such large cities as Shanghai, Tianjin and Beijing) to the western sector, and nor does it reject the possibility of placing for a fixed period of time the major investments in the eastern sector. However, the areal development strategy, in not taking the differences between the three sectors of the east, central, and west as the basic regional factors in the research on distribution of industries, is first directed at the areal relations and regional relations which cross over the three sectors.

An important content in the tier theory is that it advocates the development of an economy which is of the outward-oriented type for the coastal areas and an economy of the inward-oriented type for inland and the border regions. This position is not a correct one. First, in such a large country as ours with a population of 1 billion, the domestic market is naturally of first importance. Besides, the national economy is an organic whole. Hence, be it the eastern, or central or western sector, and be it a developed region or an undeveloped region, being oriented to the domestic market should come first (except special zones); the degree of their economies being oriented externally may be different but there should not be any difference in quality. Second, opening to the outside world and developing external economic relations are common needs in the economic development of the various regions in our country. The eastern, central and western sectors can all develop an economy which is partly oriented toward the world market. The developed regions can do so and regressive regions can likewise do so, provided a definite amount of comparative interests can be obtained. Certainly, in a modern society, proximity to the coastline cannot be taken as the basic condition for developing external economic relations, although we do not deny that coastal cities and towns do offer conveniences to the development of world economic cooperation. Third, geographically speaking, opening to the outside world and external economic cooperation should be from all sides. As a large continental country, our country's external intercourse can be carried out not only through the coastal line but also through the even longer land border lines. We must pay high regard to economic cooperation with neighboring countries along the border. Taking a long-term view, the central and western sectors can carry out external intercourse through the coast while the coastal areas can likewise, through our land border, interact with foreign countries (just like and European and Asian continental bridge). In short, taking a long-term view, in

developing external economic relations, ladder-like disparities do not exist between the eastern, central, and western regions and, in like manner, the areal development strategy should be enforced.

Certain proponents of the tier theory have also advocated transferring the traditional industry along the coast to the interior so as to concentrate efforts on developing "high-excellent-top" quality products and advocated the gradual transfer of the high-technological industries and newly rising industries from the east to the west. This view is also incorrect. First, in neither the eastern, central or western regions in our country has industrialization on the basis of the traditional industry been completed. Considering the eastern sector as a whole the problem of the transfer of the traditional industry does not exist (with the exception of a minority of large cities). It is still very necessary to make it an important base and an important market for the traditional industry as well as to tap and develop the potentials of the traditional industry. Second, high-tech industries and newly rising industries have a new industrial foundation different from the traditional industry; their geographical distribution and the degree of development of the traditional industry have little relation with each other and there is no connection whatsoever to whether or not they are near the sea.

III

Areal Development Strategy is in Harmony with the Principle of Comprehensive Benefits to Society

In scientifically compiling a strategy for distribution of industries, we cannot consider only the principle of near-term profits but we must take the economic benefits of effective allocation of resources as the basis, consider all the factors, and in an all-round manner weigh and measure the social comprehensive benefits embracing such factors as economy, ecology, politics, culture, racial relations national defence and foreign affairs. Areal development is a universal law governing the development of the distribution of industries and, generally speaking, harmonizes with the principle of comprehensive economic and social development. Areal development has many patterns. The question is which pattern suits China's national conditions.

Compared with tier development, the strategy of areal development can achieve better social benefits. Our country is a large, united, socialist country with the eastern coast, central, and western parts of the inland and even the border regions all possessing the conditions (different in degree but not in quality, particularly between the coastal areas and inland) and demand for developing the modern industry. Socialism demands that the various localities have, as far as possible, equal opportunities in developing the economy and taking the road leading to joint development and joint affluence. However, according to the general law on economic and

social development, particularly in respect to large countries, for the various localities to develop at the same pace and to be well off at the same time is an impossibility. Inevitably the development is in some cases fast and in some cases slow and in becoming well off some may be ahead of others and some, slower. It is necessary to allow a portion of the localities to develop relatively faster and to become well off earlier than others so as to lead the whole country to joint development and joint affluence. This being the case, how should we treat the contradictions that must grow between jointly becoming well off and a portion of the regions becoming well off first and between joint development and a portion of the regions becoming developed earlier and more rapidly? In China, if the tier development strategy were enforced on a long-term basis and the eastern, central and western sectors should carry out industrialization and modernization according to that order, then it would lead to forming inside the country, the first world, the second world and the third world. This not only would not be in harmony with the socialist principle but would also be detrimental to the rapid development of the economy. In enforcing the areal development strategy which calls for the combination of both centralizing and dispersing, due to the areal distribution in the various regions of the whole country, whichever province and region possessing the conditions can set up and develop modern industrial areas. This reduces the differences between the areas and thereby between the regions and will then ease the contradictions between joint development and a portion of the regions becoming developed earlier than others. This is beneficial to the stable and coordinated development of the entire social economy.

The areal development strategy calling for combination of centralizing and dispersing is suited to our country's national conditions and is in harmony with the principle of economic benefits. It can not only achieve relatively good collective economic results through first centralizing development in the area but also fully display their role in being distributed to the existing industrial bases (areas) throughout the country and fully utilize the conditions and strong points of the various regions for developing modern industry, thus enabling the various localities to achieve relatively good economic benefits and thereby helping in speeding up the country's industrialization process. Contrarily, if we one-sidedly stress developing the eastern sector first, then this will make it impossible for the original industrial bases in the central and western sectors to achieve a higher development which they should have or to fully utilize their conditions for industrial development, or to display their strong points in resources. Among the undeveloped areas in the eastern sector some may be suited to being developed into new areas while some others may not be so suited, and if we devote efforts to developing areas in the eastern sector which have relatively poor conditions for development, the resulting economic benefits obviously will not be so good as investing in the new and old industrial areas in the central and western sectors which possess the necessary conditions. Our country's economy

is an organic whole. If economic development in the eastern sector cannot obtain the cooperation and coordination of industrial development in the central and western sectors, then even though development in the sector may be faster for a time, in the end it cannot be sustained.

It must be especially emphasized that enforcing the areal development strategy is one of the basic conditions for establishing a united market for the whole country. Since our country is one with a large territory and a large population in which the economic development is extremely imbalanced, establishing a national united market structure meets with rather large difficulties. If in accordance with the geographical relations of the eastern, central, and western regions we establish dual structures comprising modern economy and traditional economy, then markets in the whole country will inevitably and on a large scale slant toward the eastern coastal areas. Under such conditions, the various localities, for the sake of their own interests, will resort to measures to change the situation and the results will be splitting up the market, disintegrating the united market, and normal development of a commodity economy in the country as a whole will be an impossibility. On the other hand, enforcing the areal development strategy of combining centralizing and dispersing may possibly solve the difficulties of establishing a united market for the whole country. With the advanced industrial areas being scattered throughout the country and forming an areal network and the areal economy all being modern economy there being no disparities in quality except certain difference in the matter of degree, we can first in the areal network and through the reciprocal role of the areal network with the non-areal, establish a united market of a national nature and avoid the large-scale slanting to one side of the markets in the whole country. Naturally the differences in degree between the areas in the eastern, central, and western sectors may cause certain slanting of the markets. However, such factors as the incomplete circulation of production factors, transportation cost, specialized division of work between the areas and the effective regulation of the central government will offset these differences and make the national market basically stable.

The areal development strategy is beneficial to political unification and the process of democratization in the country. Construction of a democratic political regime which has a high rate of efficiency and a full complement of statutes depends on development of the economy and culture and on the urbanization process. Enforcement of the areal development strategy which combines centralizing and dispersing will scatter areas of modern economy throughout the country, and the large cities and towns on the one hand will be centers of economic and cultural development and, on the other hand, serve as centers for democratic political construction. This will help in the construction of a united democratic political structure and the relevant statutes gradually spreading throughout the country.

The areal development strategy is beneficial to the development of the regions occupied by the minority races and strengthens national unity. It also helps in augmenting our country's stature in national defence and foreign affairs. Ours is a big continental country. Our land border line is much longer than our coastline and our stature in national defence and foreign affairs is to a large extent determined by the development of economic societies in the land border areas. Opening up and accelerating the development of the border areas are the most important and most effective forms and conditions for protecting the border land and developing the external relations of the border areas. Prolonged backwardness of the vast land border areas will place our country at a disadvantage in national defense and in our foreign affairs posture. Enforcing the areal development strategy of combining centralizing and dispersing will be of help in speeding up the economic and social development of the border areas and can thereby unceasingly strengthen our country's stature in national defence and in foreign affairs.

Enforcing the areal development strategy of centralizing and dispersing coincides with the principle of ecological benefits. Industrial centralization in areal development facilitates the comprehensive treatment of pollution; and second, the relative dispersing of areal distribution helps in controlling industrial pollution within the confines of ecological self-purifying capacity.

In short, the areal development strategy of combining centralizing and dispersing is suited to China's national conditions and can achieve relatively good economic and social benefits. Naturally, any strategy has its own difficulties and problems. Enforcing the areal development strategy will impose relatively high demands on development of communications and intelligence in the whole country. Its short-term economic benefits may possibly be lower than the tier strategy. However, after balancing all the factors it may be found that the areal development strategy is still the best one.

Based on the general law governing areal development and the principle of comprehensive benefits in economic and social development to make an assessment of the industrial distribution strategy after the founding of the republic, it is found to be very rational but also to have serious errors. The industrial areas are appropriately scattered throughout the country and have regard for the principle of comprehensive benefits to the economy, to politics, and to national defence but the principle of economic benefits from an effective disposition or allocation of resources is overlooked. Also overlooked are the development of new and old industrial areas in the eastern sector and the fact that inland distribution of industries does not exactly harmonize with the principle of areal development. Moreover, many of the new industrial areas do not fully rely on the central cities and towns or their original industrial bases. We should sum up in an

overall manner and not forget the lessons drawn from the passive retreat of the three-line construction to the inland and from scattering the areas blindly.

IV

Conclusion: How to Study and Implement the Industrial Distribution Strategy

To correctly compile the industrial distribution strategy requires scientific research on industrial distribution and such research should meet the following demands which correspond to the complexity of the problem: 1) Microeconomic analysis and macroeconomic analysis must be joined together. Industrial development invariably and at the same time touches on the microeconomic structure and macroeconomic structure of the economic and geographic space; its evolution first starts microeconomically and subsequently takes on a macroeconomic enlargement. 2) Analysis of the stature and analysis of the process must be joined together. Industrial distribution is the posture of distribution of industry in the economic and geographic space and is in a state of continuous motion and evolution. 3) It is necessary to combine analysis of stature and analysis of motive power. The former describes the laws of the study on the movements of industrial distribution whereas the latter reveals the causes of motive power studies on the evolution in industrial distribution. 4) We must combine analysis of economic growth with analysis of economic development. China being a large developing country, it possesses a typical structure of modern economy and traditional economy. This structure not only manifests the differences from a technological structure, an organizational structure and a structure of industrial departments but also outstandingly exhibits the differences from a regional economic structure. Manifestation of the dual structure in economic and geographical space is the special characteristic of the nature of the distribution of industries in our country. 5) Analysis of the economic factors and analysis of social factors must be combined. Distribution of industries is definitely not a problem of the effective allocation of economic resources in geographic space but is a problem of the all-round measuring of the social comprehensive benefits.

Modern areal theory provides a set of concept tools for the research on industrial distribution and generally can meet demands 1) and 2) above. Since areal theory basically is a kind of stature analysis, to make it meet demand 3) above, it is necessary to combine it with the theory of imbalance in regional development which possesses the feature of analysis of motive power and the theories of growth poles and growth points. Since the areal theory basically is a kind of economic growth theory on distribution of industries, it can be combined with the development theory of dual structure (a more intensive study requires the use of analysis of technological layers to supplement analysis of dual structure) and thereby satisfy demand 4) above. Finally, areal theory is principally limited to analysis of economic factors. It

should be combined with analysis of the comprehensive benefits of economic and social development and thereby satisfies demand 5) above. The discussions in this article on the areal development strategy are a trial attempt on the research carried out in this context on the distribution of industries.

Areal opening up is the universal law of the development of industrial distribution which no country can violate. Socialist countries should and can evade the blind nature of capitalist conditions and based on the principle of comprehensive benefits in economic and social development utilize planned regulation to consciously carry out areal opening up. Opening up of areas may take a number of concrete forms. China must adopt the pattern of a combination of centralizing and dispersing, that is, industry should first be centralized in certain areas for development while the areas are appropriately scattered to various large regions in the whole country. As pointed out before, in recent years, the economic disparities between the eastern, central, and western sectors and in their interior have been rapidly expanding. Hence, for the sake of ensuring the coordinated development of socialist economy in different regions and the sustained increase in economic and social benefits, we must rapidly and clearly implement the areal opening up strategy. Simultaneously with vigorously developing the economy in the eastern coastal areas we should steadily step up the industrialization process in the central and western sectors.

The guiding principles in concretely implementing the areal opening up strategy are: First, opening up and developing the new and old industrial areas should follow the principle of social comprehensive benefits comprising various factors such as economy, ecology, politics, national relations, national defence and foreign affairs, and must be based on economic benefits as the foundation. Under the majority of conditions, we may say that opening up of the great proportion of areas should take economic benefits as the primary consideration, at the same time attending to other kinds of benefits; however, as for the minority of areas, we should first take into consideration the national relations and the factors of national defence and foreign affairs, at the same time paying due regard to the economy and the ecological benefits. For example, under the conditions of the similarity or dissimilarity of other conditions, priority should be given to opening up the border areas before the inland. Second, the principle of economic benefits should also be subjected to the comprehensive consideration of many and various factors. For example, factors such as proximity to production areas of raw materials or fuels or to markets or labor force, and as wages and cost of production, capital supply, supply of technology, and so forth. The state's major investments should be placed in regions and areas offering a high efficiency rate in utilization of resources, and rely on the expanding and absorbing functions generated by the economic development of these regions and areas to push the economic development of the areas and non-areas. Third, we must

weigh and handle well the relations of short-term benefits and long-term benefits. Actual practice since the founding of the PRC has shown that in attending to the problem of distribution of industries, unilaterally seeking for short-term benefits or long-term benefits will seriously damage economic development and that the two must be considered together. However, it should be seen that consideration of the long-term interests should be given priority. Fourth, areal development should be based on the original distribution of the areas. We should fully display the roles of the original areas (old areas possess various kinds of facilities such as the strong points of an assembled economy, adequate personnel, resources and technology), and should, with due consideration to the various areas' conditions and needs (comprehensive targets for social and economic development), study jointly the development and expansion (or consolidation and elevation) of the old area and the establishment of the new area. Fifth, we should combine together industrial distribution strategy and industrial structural strategy to study the arrangement for, and establishment of, a rational regional distribution of the industrial departments. Since between the industrial areas distributed to the different regions there do not exist quality differences in economic and technological development, in considering the regional allocation of the industrial departments too much stress should not be placed on grading the division of work demarcated according to the processing intensity but greater attention should be paid to the industrial internal division of work demarcated according to the types and categories of products. In the eastern coastal areas where the processing industry has developed it is also necessary to develop the basic industries (such as iron and steel, petrochemical, and electric power industries) whereas in the interior with rich resources not only should we develop the energy and raw materials industries but also gradually develop the processing industries, and so on. Sixth, in setting up the industrial areas it is necessary to consider the existing administrative demarcations (they are subject to change but possess a relative stable character), and at the same time attention should be paid to the formation of trans-provincial areas so as to facilitate the unification process of the whole country's economic and social development. Seventh, scientific demarcation of the economic regions, formation, and implementation of corresponding regional economic policies possess an especially important significance in properly enforcing the areal development strategy but also have rather sizeable difficulties. In demarcating economic regions it is necessary to consider the conditions of economic resources, historical relations, and natural geography as well as many other factors such as national defence, foreign affairs, and domestic political relations. We must also study the relatively fixed administrative demarcations. A regional economic policy should embrace matters such as investment, credit and loans and interest rate, tax rate, wage subsidies, encouragement to population movement, and so forth and should also be a policy related to the economic structure such as degree of state control and degree of the enterprise's decisionmaking

power, structure of the ownership system, introduction and absorption of foreign capital, and so forth. With regard to different localities economic policies of different degrees of preference should be enforced. Generally speaking, regarding regions enjoying priority in development, particularly backward regions, relatively larger policy preferences (including permission of the greater development of the individual economy and private-run economy) should be given. Only by so doing will it be possible to speed up the economic development of these regions and thereby be beneficial to the coordinated development of the whole national economy. Draft of article revised in October 1987.

FOREIGN TRADE, INVESTMENT

Asian Development Bank Pledges Support for Reforms

HK200605 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 20 Apr 88 p 3

[Text] Loans from the Asian Development Bank [ADB] to China totalled US\$133 million last year, the first time the bank has lent money to China.

In its 1987 annual report the bank pledged its support for the ongoing reforms in China, saying it was supporting the modernization program with a two-pronged strategy.

It has a basic focus on industry (including export oriented agro-industry)-and energy sectors, and an eye on the infrastructure sector.

Second, the bank is also helping to improve the institutional capability of relevant Government agencies.

The report said both the industry and energy sectors had crucial roles to play if China's goal of attaining the status of a middle income country by the turn of the century was to be met.

Yet it noted that both sectors had a number of bottlenecks.

The industry sector suffers from low productivity, backward technology and growing product obsolescence.

The energy sector was characterised by a high energy/GNP ratio, inadequate power capacity generation and inefficient transmission.

The report said the bank's strategy in the industry sector was to support the Government's aim of industrial modernisation, and in the energy sector to promote energy conservation, capacity addition and efficient transmission.

In order to help the Government shift from its traditional role of exercising direct administrative control over economic activities to relying more on macroeconomic instruments, the bank will also try to strengthen the institutional capacity of relevant government agencies.

The aim was to help the agencies adjust to the new approaches of economic management, and to enable them to use effectively new macroeconomic tools in addressing issues and evaluating economic programs and policies.

The report said that geographically, the bank's operations would initially focus on the country's eastern region, which is the industrial and agricultural heartland.

With regard to loans and technical assistance, the bank began lending to China only last year, with two loans amounting to US\$133.3 million.

The first loan, of \$100 million to the China Investment Bank, was aimed at financing technologically advanced machinery and equipment required for the modernization of medium and small industrial enterprises.

The second loan of \$33.3 million for a fuel conversion project supported the Government's policy of switching fuel for power generation to coal from oil so that the latter could be reserved for export.

In 1987 the bank also approved \$1.4 million in technical assistance for five projects.

Of this amount, project preparatory technical assistance amounted to \$302,000 for the Lai Wu iron and steel mill modernization and expansion project, and the Hexian pulp mill project.

The remaining three advisory and operational technical assistance, one each for the investment bank, Huaneng Power Generation Corp and the People's Bank of China, totalled \$1.1 million and were aimed at helping strengthen their institutional capability.

To lay the groundwork for the implementation of these various projects, officials from the executing agencies of China have visited the bank to familiarise themselves with its policies and procedures.

A briefing session for suppliers and contractors on the bank's procurement procedures was also held in China last year.

The ADB boosted lending to a record level in 1987, but loan cancellations and prepayments dragged the net transfer of resources to its 47 member countries down to a 15-year low.

Malaysia Removes Restrictions on Country's Imports

40060175b Shenzhen SHENZHEN TEQU BAO in Chinese 12 Mar 88 p 3

[Article by Ling [3781]: "Malaysia Announces End to Import License Requirement for Chinese Goods"]

[Text] According to a report from Kuala Lumpur, the Malaysian government formally announced on 4 March the abolition of the import license system on Chinese goods. Guo Weijie [6753 0251 2638], vice minister of trade, industry and commerce, has already notified the Hong Kong Chamber of Commerce of the change.

The Malaysian government imposed the license system on Chinese imports in 1971. Under the system, Chinese goods could only be imported with permits issued by the Ministry of Trade, Industry and Commerce and a 0.5 percent commission paid to Malaysia's state enterprises.

After the abolition of the import license system, Chinese goods not on the controlled list can be imported directly from China or indirectly through a third country without applying for import permits and paying a commission to Malaysian state enterprises.

12802

Sweden To Provide Loans to Shanghai

OW152230 Beijing XINHUA in English
1526 GMT 15 Apr 88

[Text] Shanghai, April 15 (XINHUA)—The Swedish Government will provide 20 million U.S. dollars in interest-free loans to Shanghai.

Under a contract signed today, the money will be used by the city's Wusong Chemical Works to import a Swedish toluene diisocyanate (TDI) plant to produce 10,000 tons annually.

This is the largest of all Sino-Swedish governmental economic contracts ever signed, officials here said.

The TDI plant is scheduled for completion in four years.

Shanghai Enterprises Encouraged To Become Independent Exporters

40060175a Shanghai JIEFANG RIBAO in Chinese
11 Feb 88 p 1

[Article by staff reporter Gao Xiaoxiao [7559 5135 4562]: "Major Steps Will Be Taken to Reform Foreign Trade Work in Shanghai"]

[Text] It was disclosed at a work conference of Shanghai's economic and trade departments held by the Shanghai Commission of Foreign Economic Relations and Trade on 10 February that several major steps will be taken in Shanghai this year to reform economic and

trade work: A system of contracted management responsibility in foreign trade will be fully implemented, and a foreign-exchange market will be established; export authority will be delegated step by step to the lower levels by gradual relaxation of controls and adoption of flexible policies; and qualified enterprises and groups of enterprises will be encouraged to export on their own.

On delegating export authority to lower levels, the following suggestions were offered at the meeting: 1. To export independently, enterprises must meet certain conditions in their management. 2. They should be under contract to fulfill specific targets in earning foreign exchange. 3. They should maintain independent accounting on their foreign-exchange earnings and assume full responsibility for their own profits and losses. 4. They should deal in specific categories of commodities. It was also suggested that with the delegation of export authority to the lower levels, the foreign trade departments should effectively strengthen administrative control to strictly check such illegal activities as price hikes, panic buying, and price cutting; that before new and better channels can be developed, the existing foreign trade channels should not be disrupted rashly; and that coordination should be strengthened to have a unified approach to trade relations with foreign countries.

The following measures were announced at the meeting for developing the three forms of import processing and compensation trade: 1. All state and collective enterprises can do processing or assembling work for foreign customers with materials or patterns supplied by them. They can work through the agency of or in cooperation with foreign trade enterprises, or deal directly with foreign customers. 2. The authority to examine and approve contracts for processing and assembling with materials supplied by foreign firms will be delegated to the districts, counties, and bureaus. The districts, counties, and bureaus should be adequately staffed to exercise effective control. 3. Processing and assembling for foreign customers are to be developed mainly for the town and township enterprises, neighborhood industries, and some city-owned industrial enterprises with surplus production capacities. 4. The emphasis is on labor-intensive types of processing and assembling, light industrial and textile products, for example. To be avoided are processing and assembling of commodities which will require export quotas or licenses. 5. The pivotal and coordinating role of the foreign-trade enterprises, with their many customers and business connections, should be brought into full play in developing processing and assembling work for foreign customers.

To follow the guideline that Shanghai's production enterprises should greatly increase their volume of imports and exports, foreign trade departments were called on to import a lot more materials for the processing industries this year. The trade departments are asked to take the initiative to cooperate with the production

departments in getting their production capacities organized so that they can turn out more export products faster with imported materials, thus speeding the turnover of capital for imports and earning more foreign exchange through exports. At the same time, continued efforts should be made to develop lateral economic ties to consolidate and expand the sources of goods exported by other provinces through the port of Shanghai.

It was also proposed at the meeting that efforts be made this year to open up new channels to attract more foreign investment and encourage foreign businessmen to set up wholly foreign-owned enterprises in Shanghai, to explore the possibilities of attracting Soviet and Eastern European investments in joint ventures, and to open up the local market to the partially and wholly foreign-owned enterprises in a planned way so that a part of hitherto imported goods can be purchased from them.

To expand Shanghai's economic and technological cooperation with foreign countries, it was announced at the meeting that in addition to the Shanghai Foreign Economic and Technological Cooperation Co, eight more enterprises, including the China construction, equipment, seamen, harbor, dredging, light industry, medical, and machinery and electrical companies, have been given approval to deal directly with foreign firms.

Shen Beizhang [3088 5926 4545], chairman of the municipal foreign economic relations and trade commission, made a report at the meeting. Li Zhaoji [2621 5128 1015], vice mayor of Shanghai, also spoke.

12802

Low Labor Cost as Factor in Attracting Foreign Investments

40060173 Shanghai CAIJING YANJIU [THE STUDY OF FINANCE AND ECONOMICS] in Chinese, No 2, 3 Feb 88, pp 51-56

[Article by Zheng Haidong [6774 3189 2639]: "A Discussion on the Changing Role of Low-Cost Labor as the Incentive for Direct Foreign Investment by Developed Countries—and China's Response"]

[Excerpts] A major reason why developed nations have directly invested in developing nations has been to take advantage of the low-cost labor to reduce production cost, make products more competitive, and expand their share on the international market. Many developing nations also hope to make use of their low-cost labor to attract foreign investments to speed up their own industrialization. However, because of the impact of the new technological revolution and the dramatic changes in the international economic situation, countries with low-cost labor are beginning to lose their traditional advantage. This development has not yet attracted the attention it deserves, but the trend is most worrisome. The

factors that are weakening the traditional advantage of low-cost labor are complicated. This article is an attempt to analyze the internal and external factors.

4. Improving the Investment Climate is the Developing Countries' Only Hope

According to traditional western theory of an international division of labor, labor is cheap and abundant in the developing nations, and therefore they have a cost advantage in labor-intensive type productions. In the past, the "advantage of low-cost labor" has attracted much direct investment from developed countries. But, as the international political and economic climate becomes increasingly complex, a new phenomenon which is difficult to explain by traditional theories begins to emerge. To avoid risk, some enterprises in developed nations have turned to the more demanding task of technological transformation to increase their competitive edge instead of investing overseas to cut production cost. To reduce unemployment, too, some would rather see cost go up than invest abroad. These changes unquestionably have a negative effect on North-South economic cooperation. They mean not only that developed countries are reducing the amount of direct investment in developing nations, it also means that the few goods developing nations export will have to compete, in vain, with goods, once produced by labor-intensive means but now produced in the technologically transformed countries.

In short, the developing nations are facing a grim international economic situation. It has become much more difficult for them to attract foreign investment than in the '60s and '70s. Investors from the developed countries look for profit first and foremost, and we cannot count on the kind-heartedness of these nations to export their capital. If the developing nations want to attract more and better foreign investment, they must work hard on improving their investment climate so as to augment and make the most of their traditional advantage of low-cost labor. The developing countries' efforts to improve their investment is in fact a fierce international competition with many players. Besides competing against each other, developing nations must also compete with the newly industrialized countries which already have a headstart. If the developing nations recognize properly the disadvantage of their position, and make earnest improvements in the investment climate, then it will only be a matter of time before they can give full play to their advantages, and actively compete for foreign investments.

China is one of the developing nations. Using foreign investment to speed up their modernization process has been a wise move. Within 10 years, we have had outstanding success in attracting foreign investment, and our constant improvements of the investment climate are internationally recognized. Nevertheless, the use of foreign investment on a largescale has not happened as

of yet. We also have not solved our foreign investment worries nor found a way to make full use of our advantages. Defects in our investment climate are at the root of the problem.

We have always thought that our huge labor force is our prime asset in attracting foreign investment. Superficially, this is indisputable. Compared to the well developed nations or the newly industrialized nations, our labor cost no doubt is very competitive, but so far we have not given full play to the advantage we hold. According to a report by Japan's Toyo Keizei [ORIENTAL ECONOMY], between 1984 and 1986, among the incentives which induced Japanese investments in China, low-cost labor only ranked third, but it ranked first among factors which motivated their direct investment in Taiwan and South Korea. If lower labor cost is the investment incentive, the Japanese have preferred Taiwan and South Korea to us, despite their higher labor cost. This shows that to a large extent our low-cost labor is only a potential advantage.

There are two reasons why we are unable to make better use of our low-cost labor. First, there are reasons that have to do with the labor force itself. Such problems as the poor quality of the work force, backward management methods, and the fact that the real wage of workers in the foreign-funded enterprises is too high all lead to low productivity and high production cost which cancel out all the advantages of low wages. For instance, the basic wage level of the Shenzhen SEZ's manufacturing industry is one-half of Taiwan's or South Korea's, but if we add the subsidies for housing, meals, family visits, and other expenses, the wage level becomes comparable. Two, defects in the present overall investment climate are the indirect cause. If there are problems in the overall investment climate, even the best local conditions cannot attract foreign investors.

The wage difference indeed is one of the main incentives for the developed nations to invest directly in the developing nations. But more important, the wage difference must be "real" to be meaningful. If the productivity difference is greater than the wage difference, it may not provide the best investment opportunity. As far as China is concerned, we urgently need to further improve the overall investment climate, and at the same time, pinpoint individual problems which directly prevent us from giving full play to our advantage of low-cost labor, and we must improve our "cheap labor, low productivity" image held by the foreign investors, and turn our "potential" advantage into a "real" advantage.

Understandably, many foreign enterprises invest directly in China because of her huge market. Nevertheless, whether we can take advantage of our low-cost labor is important. For instance, if we do not give play to our low-cost labor, the foreign-funded enterprises will have

higher production costs, their goods will be less competitive, and this will directly affect their profit. Therefore, no matter what motivates the foreign investors, as long as we need them, it is still vital that we give full play to our low labor cost.

Since the fall of 1985, the yen has appreciated significantly. This has struck a blow to the export-oriented Japanese economy. Because the appreciation of the yen has further exacerbated the wage difference between Japanese workers and workers in developing nations, many Japanese enterprises have become even more aggressive in investing abroad to take advantage of the lower labor cost. Furthermore, to mollify international criticism of their almost "self-sufficient" industrial structure, the Japanese are more willing to open up their market or move their productions overseas as a means to gradually "give up" some of the more labor-intensive type of industries or sectors. This is our best chance to attract Japanese investment. As long as we work hard to improve the investment climate, and make investment profitable for both sides, we can turn our low-cost labor into a major attraction, beat our competitors, and advance our own economic development by attracting a more ideal level of foreign investment.

12986

TRANSPORTATION

Transportation Figures for February Reported
HK180817 Beijing CHINA DAILY (BUSINESS WEEKLY supplement) in English 18 Apr 88 p 3

[Text] China's transport network system functioned steadily in February. The number of loaded cars averages 69,158 a day, including 26,843 carrying coal, a 0.5 percent increase over the same month last year.

Compared with February 1987, railroads carried 109.4 million tons of cargo, a 6.4 percent increase, and cargo volume reached 75.1 billion ton-kilometres, a 7.6 percent increase. Passenger trains carried 95.12 million travelers, a 0.7 percent increase; passenger volume was 23.4 billion passenger-kilometres, a 2.9 percent decrease.

The nation's waterways carried 17.23 million tons of cargo, an 11.1 percent increase; cargo volume reached 69.8 million ton-kilometres, a 7.7 percent increase. The number of passengers transported by water dropped 4.6 percent to 3.33 million; passenger volume dropped 2.4 percent to 830 million passenger-kilometres. The cargo handling capacity of coastal ports rose 15.8 percent to 30.94 million tons.

Compared with February 1987, the total volume of civil air transport reached 138.38 million ton-kilometres, a 31.1 percent increase; planes carried 20,841 tons of

cargo, a 26.4 percent increase; and cargo volume reached 47.89 million ton-kilometres, a 40.1 percent increase. Planes carried 847,000 passengers, a 17.3 percent increase.

Passenger trains starting on schedule accounted for 98.8 percent, a 0.5 percent decrease over the same period of last year. Passenger trains arriving on schedule fell to 94.5 percent, a 0.5 percent decrease.

Cargo trains starting on schedule accounted for 92.1 percent, a 0.9 percent decrease; cargo trains arriving on schedule, 91 percent, a 0.2 percent decrease.

The total business volume of post and telecommunications reached 319.21 million yuan, an increase of 18.2 percent over February 1987.

PRC MEDIA ON FOREIGN ECONOMIES

Analysis of Recent Soviet Economic, Political Reform Policies

40060174 Shanghai SHIJIE JINGJI WENHUI
[WORLD ECONOMIC FORUM] in Chinese
No 1, 5 Feb 88 pp 44-48

[Article by Zou Yongjiu [6760 3938 0046] and Zhuang Qishan [8369 6386 0810]: "An Important Turning Point in Soviet Economic Reform: Commentary on the 'Line of the [1985] April Plenum' of the CPSU Central Committee"]

[Text] Soviet economic reform entered a new stage after the "April Plenum" of 1985. The strategies and policies adopted by Soviet leaders to advance economic restructuring and to implement political reforms have attracted widespread attention from the world press and, quite naturally, have aroused the interest and attention of Chinese scholars, too. Although conditions in China and the Soviet Union and the starting points of our respective reforms differ, there are many things that we can learn and adapt from each other. Thus a study of the theory and practice of Soviet reform over the past 2 years is of some use in China's efforts to further carry out economic reforms and to carry out the spirit of the 13th CPC Congress.

I

The "April Plenum," a plenary conference of the CPSU Central Committee that was convened in April 1985, was Soviet leader Mikhail Gorbachev's first major act after assuming power, is given prominent treatment in any Soviet discussion of domestic or internal affairs—especially reform, and is invariably mentioned in the speeches and reports delivered by Soviet leaders. Thus the conference can be said to be an important turning point in Soviet economic reform, for after the meeting, Soviet economic and political reforms were synchronized, and the pace and magnitude of the reforms

approved at the meeting exceeded those of the two major reforms of the last three decades, during which reforms were initiated in the mid-1950s and the mid-1960s. Soviet leaders and scholars say that current reforms are a "direct continuation of the October Revolution," that "the times have issued a historic call for reform" and that the policy of economic restructuring represents a "revolutionary transformation" that will provide Soviet socialism "with a modern form that will enable our system to enter a new stage." In the 2 years since the plenum, Soviet leaders have convened a series of important conferences and drawn up many important laws and regulations on reform, such as the Law on Individual Labor and the Law on the Establishment of Joint Ventures between the Soviet Union and Western Industrial Countries, which moves have helped propel and deepen reform. Especially noteworthy is fact that the June Plenum of 1987 formulated the "Basic Principles Governing Fundamental Reform of Economic Management," deliberated the State Enterprise Law (which has since been passed by the Supreme Soviet), provided a general outline for reform, summarized the entire program of the April Plenum and the nation's experience in implementing that program over the past 2 years as the "line of the April Plenum," and declared that reform work since 1985 represents a deepening and development of the ideology and the line of the April Plenum. These acts enhanced the significance of the April Plenum and affirmed its historic position and role in Soviet economic and political reform.

The April Plenum was convened during a crisis in Soviet social development. At the time, Soviet leaders believed that contradictions were mounting, that problems were not being resolved promptly and that the country "was facing a real crisis." On the basis of preliminary analysis, we believe that that crisis occurred on two levels. The first was political. During the first half of the 1980s, the Soviet Union saw a rapid succession of aged leaders who were satisfied with the status quo and accomplished little in their short rules. The second was economic. By the mid-1980s, the Soviet economy had reached very low ebb, conditions were very grave and recovery was urgently needed.

The "new economic system" introduced during the mid-1960s failed to infuse any vitality into the Soviet economy and provided no major departures from the old pattern of management, and thus economic growth began to slow after the early 1970s: National income increased at an annual rate of 7.1 percent between 1961 and 1970, by 5 percent between 1971 and 1980 and by 3.6 percent from 1981 and 1985. Serious shortages appeared, and though calls were made for many years to change the country's "wasteful economy," no satisfactory improvements were made, so that by the mid-1980s Soviet energy consumption per unit output exceeded developed countries in the West by 50 percent. As for external economic relations, the nation continued its autarkic seclusion, and though its industrial output accounted for 20 percent of the world total, its foreign

trade equaled only 4 percent of the world total, a level that was much lower than the nation's actual potential. The Soviet export mix was also very irrational, with primary goods predominating. And because technology stagnated, the intensification program that was initiated during the early 1970s made no headway, labor productivity could not be increased, productive returns on capital continued to decline, and in some industries fixed assets were badly worn out, seriously obsolete and or idled. Against these adversities, Soviet leaders had no choice but to reexamine previous reforms in the hopes of finding a new path by which to avert the mounting crisis. First, they strived to make breakthroughs in the area of theory, to enliven theoretical circles and to make theorists abandon their scholasticism, formalism and other old concepts, get in touch with real life and provide a wide range of ideas on how to create a better economic system. Surveying the thinking on reform among scholars and officials during this period, one is struck by the following trends. First, these people had acquired a clear understanding of their current stage of socialist development, repudiated the rash efforts of the past several decades to leapfrog historical stages, and made a conceptual distinction between their current level of economic development and the level they wanted to achieve in the future. This represents a great change and improvement. Second, these people have demonstrated understanding of the fact that economic reform cannot be conducted in a vacuum and must be accompanied by profound changes in every realm of society; that is to say, that economic reform must be coordinated and integrated with reforms in politics, ideology, education, society, and other spheres. Third, these people have conducted a theoretical investigation of how to improve the economic system, and such questions as how to perfect the socialist systems of ownership and distribution and how to accelerate technological improvement and economic intensification will become key foci of this theoretical inquiry.

Developments in these areas paved the way for the emergence of the April Plenum program.

II

Performance over the past 2 years shows that the reform program drawn up by the April Plenum was relatively comprehensive, unlike previous efforts and discussions, which were limited to "accelerating things." Instead, the April Plenum program called for reform of the Soviet economy, politics and social life; provided a critical summarization of the successes and failures registered in the reforms adopted since the "new economic system" was initiated during the mid-1960s; formulated a comprehensive set of ideas on how to advance and deepen reform; and can be tentatively summarized as follows. First, it envisioned a metamorphosis of Soviet society. It started off its discussion of this metamorphosis with a critical evaluation of the adversities that had arisen during the previous 15, especially the previous 5 years, declaring that the crisis afflicting the Soviet Union was

caused primarily by subjective factors. By this, the plenum meant that leaders of that time (especially Brezhnev's era) failed to recognize that objective changes had occurred in the development of production, to initiate necessary reforms of economic management and to effect needed economic policies promptly and firmly. To change this passive state of affairs, the plenum averred that Soviet society must undergo a comprehensive transformation so that it could become "qualitatively new," which in turn required acceleration of technological improvement so that Soviet productivity could be raised to world levels, promotion of operational intensification and improvements in the efficiency of the entire Soviet economy. Second, the plenum stated that the way out for reform lies in "acceleration," which is the only choice available to the Soviet economy. This strategy of acceleration, however, involved not only the rate of economic growth but, more importantly, the quality of that growth. Third, the core of the acceleration strategy was intensification of production, and the crux of this lay in technological improvement, which required revolutionary changes so as to cut costs by reducing animate and materialized labor consumption while output is increased. These changes were not confined to partial improvement of equipment and production processes but rather required that the newest available technology be used to transform all sectors of the national economy. Fourth, the plenum summarized the experiments initiated in January of 1984 (principally, pilot tests of new managerial methods conducted in two large industrial enterprises) and decided to accelerate economic transformation in preparation for the gradual creation of an "integrated, comprehensive system of economic management." In principle, the plenum still stressed "continued development of centralized management" but, within these constraints, also provided for an expansion of enterprise operational autonomy, implementation of business accounting systems and strengthening the sense of responsibility and concern on the part of employees for operational results of their enterprises. Fifth, the plenum proclaimed that market supply and services must be improved, emphasizing that "pointless restrictions must be abolished" and advocating that the groundwork be laid for the development of "citizen's subsidiary businesses," of urban cooperatives and of various types of service industries so as to invigorate supply. The meeting also called for the first time for greater "flexibility" in prices. Sixth, the plenum stated that the human factor must be stressed and that human initiative must be fully mobilized, which desiderata, the meeting claimed, were key to the success or failure of economic and political reform. The meeting called for the formulation of a number of social policies to facilitate achievement of these objectives. Seventh, the plenum called for the implementation of *glasnost* and of the principle of social fairness and for the strengthening of socialist democracy and self-rule, all of which the meeting declared to be key to the effort to mobilize the human factor and to be basic to political reform. The goal in effecting *glasnost* and social fairness was to strengthen and tighten the ties between leaders and the people, to

permit the people to investigate all matters and to judge things themselves, to raise their consciousness and to pull down the "high walls" between leaders and the people, which approaches the plenum believed represented the primary way to improve social life. Eighth, the plenum called for improvements in elections. Documents passed by the conference made a point of summarizing the importance of election work and stressed the need to improve elections for basic-level organizations. These changes, it was believed, would help advance democracy, improve leadership behavior and strengthen ties between leaders and the people. Ninth, the plenum called for the resolution of cadre problems. The advanced ages and life tenures of cadres were seen as serious shortcomings in the Soviet cadre system and as the cause of some of the unhealthy tendencies in the relationships among cadres. The meeting stated that the Soviet Union was determined to resolve such problems and was prepared to adopt the following measures to do so. (1) Life tenures were to be abolished, and cadres were not to be permitted to "hold posts for long periods of time" and to continue avoiding new ideas and ignoring problems. (2) Integration of new and old cadres was to be strengthened, with leadership "stability" being maintained, "experienced" and "young" cadres being fit together better, and emphasis being placed on selection and promotion of female cadres. (3) A cadre supervision system was to be established to eliminate practices of sticking to the old ways, of reporting only good news and not the bad and of resorting to "commandism" to get by in one's work. Tenth, the plenum called for a strengthening of foreign relations and external economic ties, special efforts to promote wide-ranging cooperation with the major industrialized countries of the West, and development of new forms of economic cooperation.

III

If the April Plenum established a rough guideline for comprehensive reform of the economy, politics, social life and other spheres of the Soviet Union, the Soviet economy entered a key period in the months and years following the conference, during which time the country aggressively carried out theoretical and practical work and explored ways by which to resolve new problems that continually cropped up. Especially important were the 27th Congress of the CPSU, the January (1987) Plenum and the June (1987) Plenum, all which summarized the nation's experience in reform over the previous 2 years, drew up two important basic documents—the "Basic Principles Governing Fundamental Reform of Economic Management" and the State Enterprise Law, greatly enriched and developed the reform program and thus filled in and rounded out the line of the April Plenum. We can analyze these developments in terms of their effects in two areas, the economy and politics.

In the area of the economy, Soviet leaders called for a metamorphosis of the economic system and for the establishment of a comprehensive, effective and flexible system of economic management, believing that the

creation of a new system of economic management is the central task of every level of the country and is a decisive prerequisite for the successful implementation of the nation's strategy for economic development.

In terms of goals, the new economic management system should shift the focus of economic growth from intermediate to final social benefits so as to meet social need; organically integrate the interests of society, the collective and the individual so as to promote fully rounded development of the individual; make technological improvement the main engine of economic growth; and establish a reliable and effective system for reducing expenditure of materials, energy, and labor in production. The new economic management system is to have the following distinct features.

First, enterprises are to be the new nuclei of this system. Since enterprises have been defined as commodity producers, their central tasks inevitably are to practice full economic accounting and to raise their own funds. The new environment requires that enterprise production, social roles and labor remuneration be funded through the income earned through the collective labor of enterprise employees. In a word, enterprises must raise by themselves all the capital they need, the state will no longer subsidize them, and employee remuneration is to be determined according to the final results obtained in enterprise operations, which is to say that wages and profits are to be directly linked. To effect complete economic accounting and to enable enterprises to raise their own capital, enterprise autonomy must be broadened, as provided in the new State Enterprise Law. For example, this law stipulates that these units be allowed to do their own planning, sign contracts on their own initiative, select their own business partners, allocate the incentive funds they receive, resolve all matters relating to production and social development, and determine the forms and scales of remuneration for their employees. These reforms will greatly strengthen enterprise vitality and ensure flexibility and initiative in enterprise operations. The principle of socialist self-rule will govern enterprise management. Under this system, all enterprise leaders are to be elected by employees through secret ballot, worker congresses will be established in enterprises, worker councils will be created in these units to exercise the collective power of workers, and worker congresses will resolve all disputes between enterprise administrations and worker councils. These provisions show that enterprise authority has been transferred from the administrations of these units to their workers, acting collectively, and thus the provisions can be said to be an important expression of the principle of self-rule as it relates to the enterprise leadership system.

Second, to perfect the economic management system, the primary elements of the economic system—planning; prices; supplies of goods, materials and technology; and fiscal credit—must be closely coordinated. Only when these macroscopic measures are fully integrated

with enterprise operational systems will the entire economic management system function effectively. The "Basic Principles of Fundamental Reform of Economic Management" require the following. (1) Command planning must be abolished. The state is to use economic measures to guide enterprises in fulfillment of specific targets in the state plan and is to provide enterprises with data that serve as plans for those units, such as control figures, state orders and long-term and scientifically based economic quotas and norms. (2) A flexible price system must be established. The goal of price reform this time is not to effect a partial improvement of the price system but to carry out comprehensive restructuring of the entire system (including wholesale prices, procurement prices, retail prices and fee standards). Prices and fees are to be continually adjusted to reflect the amount of labor required for production and sale of goods, the utility and quality of commodities and the relationship between supply and demand. To meet the needs of the new system, the Soviet Union will employ centrally set prices and fees (which will be fixed, subject to approval by administrative superiors or supervising departments, according to the importance of the commodity or service to the national economy and to society), contract prices and fees (which will be set by supervising departments and enterprises in consultation with purchasing units), prices and fees independently set by enterprises and economic organizations, and other forms. Contract and independently set prices will increasingly predominate as enterprises begin to practice business accounting and to raise funds on their own and as wholesale trade for the means of production and direct economic ties develop. Clearly, this price reform will gradually lead to the creation of a more flexible price system. (3) Wholesale trade for the means of production is to be implemented. This important reform, which envisions a gradual shift away from central allocation and guaranteed supply of the means of production to producers represents commercialization of a previously barter economy, will permit a certain range of the means of production to be placed on the market. This approach will help strengthen the influence of consumers on producers; balance supply and demand; overcome shortages; ensure the ability of enterprises to purchase, within their means, the goods, materials, technology and resources they and their development plans require; and thus lay the groundwork to enable enterprises to practice complete economic accounting and to raise their own capital. (4) The fiscal credit system is to be reformed. The practice of budgeting funds to administrative units is to be changed; credit grants are to be based on long-term, stable economic and fiscal quotas that are rooted in targets for economic returns; rational use of budgeted funds is to be encouraged; and units economizing on the use of such funds are to reap the benefits of such savings. The basic principle of credit is to be restored, and a distinction is to be drawn between credit and budgeted funds. Finally, a two-tiered banking system is to be established. Under this system, the Soviet State Bank is to serve as the organizer and coordinator of all credit relationships within the national economy, and

specialized banks are to be established to meet the credit needs of the entire economy and of citizens. In sum, this reform will establish a system that integrates commodity money into planned economy and thereby improves economic results.

Third, the human factor and full development of the individual are to be emphasized so as enable Soviet citizens from different regions and of different strata to make the most of their abilities and talents. Work and labor are to be assigned according to the abilities and qualities of each person so that he can do his best. And people's independence and sense of responsibility are to be enhanced. These elements represent yet another important feature of the new system of economic management, and emphasis on the human factor will greatly increase the sense of responsibility of the Soviet people for increasing the wealth of their society.

Fourth, to meet the needs of the new economic management system, the organizational structure of management is to be reformed. As enterprises begin to practice economic accounting and raise their own funds, the Soviet Union is to establish large corporations integrating research, investment, production, sales and service so as to meet the growing needs of specialization and cooperation. Meanwhile, ministries must withdraw from operational control and assume responsibility instead for adjusting supply of and demand for their products, ensuring the quality of their goods and training their own cadres and thereby prepare to become the headquarters for the planning of technological and other development within their spheres of authority.

In the realm of politics, the Soviet Union is developing socialist democracy and self-rule. Ever since the April Plenum called for political reform rooted in democratization, the CPSU has made this its most urgent task, believing that new progress in production, science, technology, literature, the arts and other areas can be achieved only through continual development of the existing forms of socialist democracy and through steady expansion of self-rule, that reform itself can be effected only through democracy and that the full creativity of socialism can be realized only when these things are accomplished. Clearly, the Soviet Union has made political democratization the basic precondition for the survival and development of socialism and for the smooth implementation of reform.

To carry out socialist democracy, the Soviet Union is determined to advance its program of *glasnost*, believing that *glasnost* gives ministries a powerful lever in their work and that *glasnost* provides an effective means with which to effect supervision by the people. To this end, the nation has begun drawing up laws and regulations which are designed to ensure as much openness as possible in the work of the state and of society and to guarantee working people the opportunity to express their views on any issue in social life. Improvement in the electoral system is a fundamental part of and a

matter of basic principle in the democratization of Soviet life. The nation has adopted important measures to shed the formalistic aspects of this system, such as allowing voters effectively and genuinely to participate in all stages of the electoral process, providing for multi-candidate races, using the secret ballot and enlarging electoral districts. To improve the cadre system, the nation has strengthened supervision "from the bottom up" so as to make leaders very conscious of their responsibility to and dependence on voters, workers, social groups and all citizens and party members; advocated that leaders issue regular reports on their work to the people and that the people evaluate that work; and placed special emphasis on promoting non-party comrades and women to leadership positions so as to broaden participation and management roles for the broad masses of working people. The nation has also determined that it must broaden democracy within the party and vigorously initiate criticism of and self-criticism by party members, which measures have proven to be effective means of developing socialist democracy. The nation has made a special point of asking organizations to support principled and constructive criticism directed by the news media against party shortcomings and errors so as to make media reporting more incisive and objective and give the media a stronger sense of civic responsibility. The nation has also called for the strengthening and development of the legal system, believing that true democracy cannot be divorced from or place itself above the law, and plans to draft various new regulations over the next 5 years to develop the economy, culture, education and socialist self-rule; to broaden citizens' rights; and to guarantee freedom.

In summary, the line of the April Plenum can be seen as a road to the comprehensive reform of all and will produce a tremendous impact on every facet of Soviet society.

If truly effected, this line will produce striking changes in the entire Soviet economy. As commodity producers, enterprises will come to possess their own economic interests and rights and will be transformed into responsible, independent economic entities. The administrative control now exercised by leading departments will be transformed into economic control which recognizes and uses interests to effect macroscopic control and becomes broadly democratized in the process. Intensification of production will probably accelerate, for example, with labor productivity rising, the productive returns on capital improving, and the rate of increase in the amount of goods and materials expended in production rising more slowly than the growth rate for national income.

The line of the April Plenum will accelerate political reform, which will consist primarily of democratization, enable the nation to make greater strides toward realization of the superiority of the socialist system, and provide Soviet society with new momentum.

It seems, therefore, that the line fits in well with actual conditions in the Soviet Union. But this does not mean that the line and its programs are sure to be highly effective. Soviet reform is just getting under way, the reform programs formulated after the June Plenum have not been implemented yet, and the nation will encounter many difficulties in its efforts to eliminate obstacles to change and progress. Thus the April Plenum reforms will prove protracted and tortuous, and it is probably too early to evaluate them objectively.

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AGRICULTURE

1987 State Farm Estimates, 1988 Targets

40060223a Beijing ZHONGGUO NONGKEN No 2 in Chinese 24 Feb 88 p 1

[Excerpts] The estimated gross value of industrial and agricultural output of the state farm system in 1987 is 21.2 billion yuan, a 14.2 percent increase over 1986. The value of agricultural output is estimated at 9.51 billion yuan, a 9.4 percent increase over 1986. The value of industrial output is estimated at 11.69 billion yuan, an 18.6 percent increase over 1986. The export value totaled 1.87 billion yuan, a 28.9 percent increase over 1986. Revenues increased 430 million yuan, and expenditures decreased 66 million yuan. The state farm system realized profits of 1.14 billion yuan, a 19 percent increase over 1986. Labor productivity was 4,000 yuan and the per capita income of workers was 1,180 yuan. Estimated sales of grain and soybeans to the state in 1987 is 4,470,000 tons, and 180,000 tons of cotton were sold to the state. In 1988 the economic targets for the state farm system are: gross value of industrial and agricultural output 23.2 billion yuan, a 9.5 percent increase over 1987; value of agricultural output 9.99 billion yuan, a 5.1 percent increase; value of industrial output 13.21 billion yuan, a 13 percent increase; profits of 1.18 billion yuan; reduce the number of failing enterprises by 15 percent and reduce losses by 10 percent; and an export value of 1.93 billion yuan, a 3 percent increase over 1987.

Jiangsu Fertilizer Output

40060227b Nanjing XINHUA RIBAO in Chinese 28 Feb 88 p 1

[Excerpt] In 1987, Jiangsu Province produced 5.4 million tons of chemical fertilizer, a net increase of 1 million tons over 1986.

Jiangsu Peasant Income

40060227d Nanjing XINHUA RIBAO in Chinese 15 Mar 88 p 1

[Excerpt] In 1987, peasant per capita net income in Suzhou City was 1,015 yuan, in Wuxi City 925 yuan, Changzhou City 855 yuan, Zhenjiang City 796 yuan,

Nanjing City 666 yuan, Yangzhou City 615 yuan, Lianyungang City 599 yuan, Nantong City 584 yuan, Yangcheng City 533 yuan, Xuzhou City 489 yuan, and Huaiyin City 452 yuan. Peasant per capita net income in Jiangsu Province in 1987 was 626.5 yuan.

Jiangxi Spring Planting

40060227e Nanchang JIANGXI RIBAO in Chinese
24 Mar 88 p 1

[Excerpts] As of 24 March, Jiangxi Province had sown more than 23 million mu to early rice, and 1,020,000 mu to cotton. The provincial petrochemical department has allocated \$4,350,000 to import pesticide raw material and accelerate pesticide production. As of the end of February, agricultural banks had provided 510 million yuan of agricultural loans, a 25 percent increase over 1987.

Qinghai 1988 Grain Area

40060227c Xining QINGHAI RIBAO in Chinese
11 Feb 88 p 1

[Excerpt] In 1988 Qinghai Province plans to sow 5.9 million mu to grain, an increase of 50,000 mu over 1987, and 1.5 million mu will be sown to oil crops. Grain output is expected to be 1,085,000 tons, oil crop output is expected to reach 109,500 tons, and aquatic product output is estimated at 2,450 tons.

Sichuan Grain Area

40060227a Chengdu SICHUAN RIBAO in Chinese
20 Mar 88 p 2

[Excerpt] According to a survey of 7,835 rural households in Sichuan Province, the area sown to grain in 1988 will be 66,087 mu, a 0.4 percent increase over 1987.

EAST REGION

Anhui Paper Warns About Three 'Unhealthy Tendencies' in Countryside

40050153d Hefei ANHUI RIBAO in Chinese
22 Jan 88 p 1

[Article by Da Yi 1129 2496]: "Gambling, Superstition, and Gift-giving Plague Rural Life"]

[Excerpts] First is "gambling." Dominoes, playing cards, mahjongg, rolling dice. The variety is endless. In some areas, even teenage girls know how to play cards. Many people gamble away in one evening all that their family has earned through hard work in a year. Families break up, and wives are driven to commit suicide.

Next is "superstition." Some sorcerers and witches in religious clothing cheat people out of their money and do them great harm. Instead of taking his sick wife or child to see a doctor, many a misguided peasant chooses to believe in a sorceress. Needless to say, they are swindled, but now and then there are cases where people actually get killed. As for paying Taoist priests to chant scriptures and expiate the sins of the dead, that happens everywhere.

Third, "giving presents." A son or daughter getting married, a baby being born, having a house built, sending a child to school, joining the army—all these are occasions for sending presents, which may cost anywhere from 50 to 60 yuan to 300 to 500 yuan. "As soon as the invitation arrives, one is filled with apprehension." Even if you are strapped, you must still feign generosity, otherwise people may speak ill of you behind your back. The gift recipient too goes in for big spending. When the party is over and the bill comes, nine out of ten discover that they are heavily in debt and feel indescribably sorry.

Actually the government tries to curb the unhealthy tendencies every year, with endless propaganda, education, and legal sanctions. But why have they not been curbed despite frequent crack-downs? One important reason is that some basic-level cadres and party members also engage in these activities.

Ultimately, of course, we must rely on the masses to struggle against these decadent things if we are to curb the "three unhealthy tendencies." In many localities, "weddings and funerals councils" have been set up. When a household has to arrange a wedding or funeral, the weddings and funerals council will first go to work by lending its assistance. Money is saved and the occasion is made more lively. This is a good method that should be popularized vigorously. In many other areas, the women have voluntarily set up "women against gambling societies" and worked together to stop their husbands from gambling. These organizations too have been very effective. Curbing

the three unhealthy tendencies will take more than administrative and legal means. It also requires us to raise the educational and ideological level of the masses. Once they have more refined interests, people would consciously give up and resist these waning lowly pursuits.

That rural areas have the "three unhealthy tendencies" does not mean that urban areas are free from them. They are not. In some urban areas, in fact, the situation is even worse. When one's son marries, one must have "three yellows and a host of machines" (gold ring, gold earrings, gold necklace, color TV, refrigerator, and high-class sound equipment) and often must spend as much as 5,000-6,000 yuan, all the way to 10,000 yuan. Some parents are pushed to the wall and left with no stable means of livelihood in their old age.

12581

Readjustment of Theoretical Work Urged

40050153a Shanghai JIEFANG RIBAO in Chinese
25 Jan 88 p 2

[Article by Wu Shouyi [0702 0208 5669]: "Theoretical Workers Must Answer Public Queries"]

[Excerpt] In the 3 months since the 13th Party Congress closed, the campaign of studying documents has been unfolding in earnest. We are currently facing a new situation unknown in the past: cadres and members of the public are raising an exceptionally large number of questions. At several rotational training sessions in this city alone, over 100 questions were raised. One locality gathered together the various questions and came up with over 2,000. Not only are there questions galore, but they are also very hard-hitting. "We are now in the 1980's. Why was the 'theory of the initial stage of socialism' not put forward until now?" "Does the admission that China is currently in the initial stage of socialism suggest that we overshot in the past and must now pull back? Back to where?" "What is the theoretical basis for separating party from government?" "What is the key to strengthening party construction?" "How can local and basic-level party and government organizations come to grips with it?" So on and so forth.

In the past, one person laid down the law and the masses unanimously voiced their "heart-felt support" and expressed their "firm resolve to enforce" it. Now everybody has his say. There is discussion all around, together with queries and questions. In the past, the issue of an important report was often followed by a period of vague posturing when level after level was mobilized. Now as soon as a report hits the press, the masses start thinking about it. This is historic progress. It is recalled that immediately after the 13th Party Congress ended, various departments concerned in Shanghai organized a dozen guided lectures.

At first it was feared that few people would apply. As it turned out, there was a full house every time. On several occasions the masses wanted to do more than just listen to the reports; one after another they passed on messages demanding explanations. Doesn't this show that there is a huge demand for theory among the people? And doesn't this popular "thirst for theory" reflect the disparity between theoretical supply and demand and the fact that theoretical research, propaganda, and education is still a weak link?

It would greatly help us determine and adjust the direction of theoretical work to examine the avalanche of questions being asked by the masses and analyze the theoretical demand they embody and the reasons they are being asked. Many of the questions raised by the masses in the course of their studies have to do with the further exposition of the theory of the initial stage of socialism. Theoretical workers urgently need to give an even more detailed description based on the theoretical outline sketched in the report to the 13th Party Congress and in light of national and market conditions. They need to provide more in-depth answers concerning the basic line and other issues, bearing in mind the practical ideas and doubts. Other questions ask how we can mesh the traditional theory with the theory of the initial stage of socialism. Over the past few decades, we conducted theoretical education and propaganda in Marxism repeatedly. The history of social development, dialectical materialism, historical materialism, the basic principles of political economy, and scientific socialism are nothing new to the rank-and-file cadre or a reasonably well-educated person, but constitute the theoretical base for his thinking and judgment. For a long time, however, we have turned these ideas into a dogma and attached them to socialism, which has had an extensive effect on the method of thinking of cadres and the public. It would be difficult to master and implement the spirit of the 13th Party Congress if all we do is to take as our starting point the viewpoints in various old textbooks. If we are to solve the bewilderment of the masses as they study, particularly the misunderstanding over the "divorce" between the theory of the initial stage of socialism and Marxism, we should immediately sort out the miscellaneous theoretical viewpoints in the old textbooks and develop new teaching materials on Marxism in the initial stage of socialism. Then there are other issues resulting from the failure to review theoretically and in time the vast number of new conditions and changes that have emerged in the course of reform and opening up to the outside world. In many cases, policies, regulations, and policy adjustments are involved. The broad ranks of theoretical workers need to plunge themselves into the forefront of practice without delay and work out these problems through in-depth research.

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Prescription for Curing Boasting, Exaggeration
40050153b Shanghai JIEFANG RIBAO in Chinese
22 Jan 88 p 1

[Article by Chun Xia [2504 1115]: "Break The Habit of Boasting and Exaggeration"]

[Text] A rural sample survey team in Jiangsu found that two villages padded their figures in reporting summer grain output to the authorities, in some cases by as much as 42 percent, according to a report by XINHUA SHE. This certainly provides us with food for thought.

We have suffered enough from boasting and exaggeration. The consequences of making up stories about iron and steel output and "launching satellites" during the "Great Leap Forward" are still fresh in our memories. Even today, however, deception and exaggeration remain widespread. Why?

For years there seems to have been this axiom in our lives: it always pays to exaggerate and embellish your achievements. You might be commended by your superior and find good graces in his eyes. You may even be promoted and achieve fame and fortune. On the contrary, if you report the situation as it is, including problems and mistakes in your work, you will look bad and be criticized. At worst you may even suffer a setback in your "bureaucratic fortunes." As they say, "the messenger of good news would have reason to rejoice, while the messenger of bad news would suffer for it." This tendency has not been reversed in some localities and departments, so that even when there is clearly no "good news," some people insist on fabricating it. Maybe they are so addicted to boasting and exaggeration that they just cannot help themselves.

The ailment is so serious that it must be treated. In my opinion, the best cure for the malady of boasting and exaggeration is to make those who report "good news" suffer for it. If one may end up losing both fame and fortune for resorting to deception, then probably nobody will commit the folly of gross deception. It is not known how the county where the villages are located intends to deal with the boasters and exaggerators "involved."

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Circular Calls for Elimination of Formalism
40050153c Nanjing XINHUA RIBAO in Chinese
17 Jan 88 p 1

[Excerpts] The offices of the Jiangsu CPC Committee and the provincial government have issued a circular based on the opinions of leading comrades on the committee and in the government.

The circular puts forward five demands:

1. As a rule no provincial meeting would be held from now on to commend people, celebrate victory, and present awards. No large-scale celebrations would be held except on major holidays. In general there should be no ribbon-cutting ceremonies, with the exception of functions with a major impact on foreign relations. Should they need to organize this kind of conference or activity, provincial-level organizations must apply in advance to the Jiangsu CPC Committee and provincial government for permission.

2. All localities, departments, and units must streamline their meetings as much as possible. As a rule, leading comrades on the Jiangsu CPC Committee and in the provincial government should not be invited to attend business and work conferences that must be held. Sometimes the leading comrade directly in charge may be invited to attend an important conference held by a department directly under the province if the conference has overall significance. Except for various provincial representative assemblies and commemorative activities with major domestic and foreign impact, leading comrades on the Jiangsu CPC Committee, Jiangsu Advisory Commission, Jiangsu People's Congress, provincial government, Jiangsu Chinese People's Political Consultative Conference, and Jiangsu Disciplinary Inspection Commission should not normally be invited.

3. In accordance with the principle of separating party from government, leading comrades on the Jiangsu CPC Committee should not normally be invited to attend government activities. Nor should leading government comrades be invited to attend Jiangsu CPC Committee functions. When the presence of a leading party or

government comrade is needed at a function or conference, the offices of the Jiangsu CPC Committee and provincial government should be notified 1 week in advance for them to make centralized arrangements, instead of approaching the comrade concerned directly. In general, no written invitations should be sent for work and business conferences. All meetings and activities should abide by the principle of frugality and hard work, with no ostentation, no extravagance, no wining and dining, and no souvenirs or quasi-souvenirs in any form. The emphasis should be on effectiveness and real problem-solving.

4. All press units must improve their conference coverage. Important meetings, holidays, and political activities may be reported in greater or lesser detail and in different ways, depending on individual circumstances. As a rule, the routine, work, and business meetings of a provincial department should not be covered. In accordance with the spirit of giving more publicity to people who have contributions, achievements, and innovative spirit and less publicity to leaders, the name lists of leading comrades and the speeches of individual comrades should be published selectively. Reporting should stress actual deeds, not positions.

5. When a department directly under the province calls a work or business meeting, responsible comrades on the municipal or county CPC committee or in the municipal or county government should not usually be notified and invited to attend. In case of an important meeting where their presence is really needed, permission must first be obtained from the Jiangsu CPC Committee and the provincial government.

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